



*Roche Capital Market Ltd –
Interim Financial Statements 2017*

Roche Capital Market Ltd Interim Financial Statements

The Interim Financial Statements have been reviewed by Roche Capital Market Ltd's auditor and their review report is presented on page 8.

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

	Six months ended 30 June	
	2017	2016
Income		
Financial income – related parties ²	29	51
Total income	29	51
Expenses		
Financing costs ²	(24)	(43)
Financing costs – related parties ²	(5)	(7)
Total expenses	(29)	(50)
Profit before taxes	-	1
Income taxes	-	-
Net income	-	1
Other comprehensive income, net of tax	-	-
Total comprehensive income	-	1

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

	30 June 2017	31 December 2016
Assets		
Non-current assets ^{3,7}	2,600	1,100
Current assets ^{3,7}	40	1,593
Total assets	2,640	2,693
Liabilities		
Non-current liabilities ⁴	(2,601)	(1,099)
Current liabilities	(12)	(1,557)
Total liabilities	(2,613)	(2,656)
Total net assets	27	37
Equity		
Share capital ⁵	1	1
Retained earnings	26	36
Total equity	27	37

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

	Six months ended 30 June	
	2017	2016
Cash flows from operating activities, before income taxes paid	-	-
Income taxes paid	(1)	(1)
Cash flows from operating activities	(1)	(1)
Cash flows from investing activities	100	105
Cash flows from financing activities	(99)	(104)
Increase (decrease) in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of period	-	-
Cash and cash equivalents at end of period	-	-

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

	Share capital	Retained earnings	Total
Six months ended 30 June 2016			
At 1 January 2016	1	34	35
Net income	-	1	1
Other comprehensive income	-	-	-
Total comprehensive income	-	1	1
Dividends	-	-	-
At 30 June 2016	1	35	36
Six months ended 30 June 2017			
At 1 January 2017	1	36	37
Net income	-	-	-
Other comprehensive income	-	-	-
Total comprehensive income	-	-	-
Dividends	-	(10)	(10)
At 30 June 2017	1	26	27

Notes to the Roche Capital Market Ltd Interim Financial Statements

1. Accounting policies

Basis of preparation

These financial statements are the unaudited condensed interim financial statements (hereafter 'the Interim Financial Statements') of Roche Capital Market Ltd, (*Roche Kapitalmarkt AG*), a company registered in Basel, Switzerland (hereafter 'the Company') for the six months ended 30 June 2017 (hereafter 'the interim period'). 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. Financing takes place on the bond or loan markets.

These Interim Financial Statements should be read in conjunction with the Financial Statements for the year ended 31 December 2016 (hereafter 'the Annual Financial Statements'), as they provide an update of previously reported information. They were approved for issue by the Board of Directors on 25 July 2017.

Statement of compliance

The Interim Financial Statements have been prepared in accordance with IAS 34 'Interim Financial Reporting'. They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company since the Annual Financial Statements.

Management judgements and estimates

The preparation of the Interim Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of revenues, expenses, assets, liabilities and related disclosures. If in the future such estimates and assumptions, which are based on management's best judgements at the date of the Interim 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.

There are currently no key assumptions about the future and no key sources of estimation uncertainty that the Company's management believe to have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next twelve months.

Segment reporting

The Company has only one operating segment and undertakes its operation in Switzerland. Therefore no segment reporting is included in these Interim Financial Statements.

Significant accounting policies

Except as described below, the accounting policies applied in these Interim Financial Statements are the same as those applied in the Annual Financial Statements. The presentation of the Interim Financial Statements is consistent with the Annual Financial Statements.

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

The Roche Group is currently assessing the potential impacts of the various new and revised Accounting Standards that will be mandatory from 1 January 2018, notably IFRS 9 'Financial Instruments'. Based on the analysis to date, the Company does not anticipate that these will have a material impact on the Company's overall results and financial position.

IFRS 9 'Financial Instruments'. The Group plans to implement the new Standard effective 1 January 2018 and will apply the exemption from full retrospective application for the classification and measurement requirements, including impairment, meaning that the comparative 2017 results will not be restated when the new Standard is applied.

2. Financial income and financing costs

Financial income – related parties *in millions of CHF*

	Six months ended 30 June	
	2017	2016
Interest income – related parties	29	51
Total financial income – related parties	29	51

Financing costs *in millions of CHF*

	Six months ended 30 June	
	2017	2016
Interest expense	(24)	(41)
Amortisation of debt discount	-	(2)
Guarantee fees – related parties	(5)	(7)
Total financing costs	(29)	(50)

3. Loans receivable – related parties

On 23 March 2017, following the issuance of Swiss-franc denominated bonds (see Note 4), the Company granted three new loans to F. Hoffmann-La Roche Ltd, Basel in amounts of 350, 400 and 750 million Swiss francs respectively. The terms of the loans receivable are stated below.

Loans receivable – related parties *in millions of CHF*

	30 June 2017	31 December 2016
Outstanding principal CHF 65 million, due 20 March 2017, interest rate 0.3%	-	65
Outstanding principal CHF 1.5 billion, due 23 March 2017, interest rate 5.63%	-	1,500
Outstanding principal CHF 600 million, due 21 September 2018, interest rate 1.37%	600	600
Outstanding principal CHF 400 million, due 23 September 2018, at a yield of negative 0.1870%	400	-
Outstanding principal CHF 500 million, due 23 September 2022, interest rate 1.97%	500	500
Outstanding principal CHF 750 million, due 23 September 2024, interest rate 0.3725%	750	-
Outstanding principal CHF 350 million, due 23 March 2029, interest rate 0.7211%	350	-
Total loans receivable – related parties	2,600	2,665
Thereof:		
- Long-term loans receivable	2,600	1,100
- Short-term loans receivable	-	1,565
Total loans receivable – related parties	2,600	2,665

4. Debt

Outstanding bonds

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

	Effective interest rate	30 June 2017	31 December 2016
4.5% bonds due 23 March 2017, principal CHF 1.5 billion CHF (ISIN: CH0039139263)	4.77%	-	1,499
1% bonds due 21 September 2018, principal CHF 0.6 billion (ISIN: CH0180513068)	1.04%	600	600

Zero coupon bonds due 23 September 2018, principal CHF 0.4 billion (ISIN: CH0358654967)	-0.45%	401	-
1.625% bonds due 23 September 2022, principal CHF 0.5 billion (ISIN: CH0180513183)	1.64%	500	499
0.1% bonds due 23 September 2024, principal CHF 0.750 billion (ISIN: CH0358654975)	0.11%	750	-
0.45% bonds due 23 March 2029, principal CHF 0.350 billion (ISIN: CH0359915409)	0.46%	350	-
Total		2,601	2,598
Thereof:			
- Long-term debt		2,601	1,099
- Short-term debt		-	1,499
Total debt		2,601	2,598

The fair value of the bonds is CHF 2,644 million (31 December 2016: CHF 2,679 million). These are determined based on the observable market prices of the bonds (Level 1 fair value hierarchy). There are no pledges on the Company's assets in connection with the debt. All issued bonds are guaranteed by Roche Holding Ltd, the parent company of the Roche Group.

Issuance of bonds or notes

On 23 March 2017 the Company completed an offering of Swiss-denominated fixed 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
Zero coupon bonds due 23 September 2018, principal CHF 0.4 billion (ISIN: CH0358654967)	-0.45%	400	402
Fixed 0.1% bonds due 23 September 2024, principal CHF 0.750 billion (ISIN: CH0358654975)	0.11%	750	750
Fixed 0.45% bonds due 23 March 2029, principal CHF 0.350 billion (ISIN: CH0359915409)	0.46%	350	350
Total		1,500	1,502

These bonds are guaranteed by Roche Holding Ltd, the parent company of the Roche Group. The Company did not issue any bonds or notes during the six months ended 30 June 2016.

Redemption of bonds or notes

On the due date of 23 March 2017 the Company redeemed the fixed rate bonds with a principal of CHF 1,500 million. The cash outflows was CHF 1,500 million, plus accrued interest, and there was no gain or loss recorded on the redemption. The effective interest rate of these notes was 4.77% (2016: none).

5. Equity

Share capital

The authorised and issued share capital of the Company consists of 1,000 shares with a nominal value of CHF 1,000 each and has not changed during the interim period. All the shares are owned by Roche Holding Ltd, a public company registered in Switzerland.

Dividends

On 16 March 2017 the shareholders approved the distribution of a dividend to Roche Holding Ltd of 10 million Swiss francs in respect of the 2016 business year and the Company's reserves (2016: none). The dividend distribution has been recorded against retained earnings in 2017.

Own equity instruments

The Company holds none of its own shares (2016: none).

6. Contingent liabilities

As of 30 June 2017, the Company does not have any material contingent liabilities (2016: none).

7. 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 disbursements/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 to the Annual Financial Statements.

Related party transactions *in millions of CHF*

	Six months ended 30 June	
	2017	2016
Interest income – related parties ²	29	51
Guarantee fees – related parties	(5)	(7)
(Increase) decrease of cash pool balance with related parties	(26)	(29)
Repayment of short-term loans receivable – related parties ³	1,565	62
Disbursement of long-term loans receivable – related parties ³	(1,500)	-

Related party balances *in millions of CHF*

	30 June 2017	31 December 2016
Long-term loans receivable – related parties ³	2,600	1,100
Short-term loans receivable – related parties ³	-	1,565
Accounts receivable – related parties ⁸	40	28
Accounts payable – related parties	-	(1)

8. Financial risk management

The Company's financial risk management objectives and policies are consistent with those disclosed in the Note 13 to the Annual Financial Statements.

Carrying value and fair value

The carrying values and fair values of financial assets at 30 June 2017 are stated below:

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

By line items in notes	Asset class	30 June 2017		31 December 2016	
		Carrying value	Fair value	Carrying value	Fair value
Long-term loans receivable – related parties ³	Loans and receivables	2,600	2,643	1,100	1,153
Short-term loans receivable – related parties ³	Loans and receivables	-	-	1,565	1,575
Accounts receivable – related parties ⁷	Loans and receivables	40	40	28	28
Total		2,640	2,683	2,693	2,756

The fair values for loans receivables – related parties disclosed in the above table were calculated based on the present value of the future cash flows of the loans, discounted at an adjusted market rate for instruments with similar credit status, maturity periods and currency. The counterparties to the Company's financial assets are members of the Roche Group and therefore the credit risk ultimately depends on the financial position of Roche Group. The fair value of the loans receivable would be Level 2 in the fair value hierarchy.



Independent Auditor's Report on the Review of Interim Financial Statements

To the Board of Directors of Roche Capital Market Ltd, Basel

Introduction

We have been engaged to review the accompanying condensed balance sheet of Roche Capital Market Ltd as at 30 June 2017 and the related statement of comprehensive income, condensed statement of cash flows and statement of changes in equity for the six-month period then ended, and selected explanatory notes (the interim financial statements) on pages 1 to 7. The Board of Directors is responsible for the preparation and presentation of these interim financial statements in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements as at 30 June 2017 are not prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

KPMG AG

Ian Starkey
Licensed Audit Expert
Auditor in Charge

Marc Ziegler
Licensed Audit Expert

Basel, 25 July 2017