Roche Capital Market Ltd – Financial Statements 2019

Roche Capital Market Ltd, Financial Statements

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

	Year ended 31 December	
	2019	2018
Income		
Financial income – related parties [2]	**22**	23
Total income	**22**	23
Expenses		
Financing costs [2]	**(15)**	(15)
Financing costs – related parties [2]	**(5)**	(6)
Total expenses	**(20)**	(21)
Profit before taxes	**2**	2
Income taxes [3]	**(1)**	(1)
Net income	**1**	1
Other comprehensive income, net of tax	**-**	-
Total comprehensive income	**1**	1

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

	31 December 2019	31 December 2018	31 December 2017
Non-current assets			
Long-term loans receivable – related parties [5]	**2,500**	2,500	1,600
Total non-current assets	**2,500**	2,500	1,600
Current assets			
Short-term loans receivable – related parties [5]	**25**	28	1,030
Accounts receivable – related parties [6]	**7**	7	7
Cash and cash equivalents [7]	**-**	-	-
Total current assets	**32**	35	1,037
Total assets	**2,532**	2,535	2,637
Non-current liabilities			
Long-term debt [9]	**(2,500)**	(2,500)	(1,599)
Total non-current liabilities	**(2,500)**	(2,500)	(1,599)
Current liabilities			
Short-term debt [9]	**-**	-	(1,001)
Current income tax liabilities [3]	**0**	0	-
Accounts payable – related parties [6]	**(2)**	(1)	(4)
Accrued interest [8]	**(5)**	(5)	(5)
Total current liabilities	**(7)**	(6)	(1,010)
Total liabilities	**(2,507)**	(2,506)	(2,609)
Total net assets	**25**	29	28
Equity			
Share capital [10]	**1**	1	1
Retained earnings	**24**	28	27
Total equity	**25**	29	28

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

	Year ended 31 December	
	2019	2018
Cash flows from operating activities		
Net income	**1**	1
Adjusted for:		
- Financial income – related parties	**(22)**	(23)
- Financing costs	**15**	15
- Financing costs – related parties	**5**	6
- Income taxes	**1**	1
Income taxes paid	**(1)**	(1)
Issue of loans receivable – related parties [5]	**(25)**	(928)
Proceeds from repayment of loans receivable - related parties [5]	**28**	1,030
Interest received – related parties	**22**	22
Total cash flows from operating activities	**24**	123
Cash flows from investing activities	**-**	-
Cash flows from financing activities		
Proceeds from issue of bonds [9]	**-**	901
Repayment and redemption of bonds [9]	**-**	(1,000)
(Increase) decrease of cash pool balance with related parties [6]	**1**	(3)
Interest paid	**(15)**	(15)
Financing costs paid – related parties	**(5)**	(6)
Dividends paid	**(5)**	-
Total cash flows from financing activities	**(24)**	(123)
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 2018			
At 1 January 2018	1	27	28
Net income	-	1	1
Other comprehensive income	-	-	-
Total comprehensive income	-	1	1
Dividends	-	-	-
At 31 December 2018	1	28	29
Year ended 31 December 2019			
At 1 January 2019	**1**	**28**	**29**
Net income	**-**	**1**	**1**
Other comprehensive income	**-**	**-**	**-**
Total comprehensive income	**1**	**1**	**1**
Dividends	**-**	**(5)**	**(5)**
At 31 December 2019	**1**	**24**	**25**

Roche Capital Market Ltd, Notes to the Financial Statements

1. Summary of significant accounting policies

Basis of preparation

These financial statements are the audited annual financial statements (hereafter 'the Annual Financial Statements') of Roche Capital Market Ltd, (*Roche Kapitalmarkt AG*), a company registered in Basel, Switzerland (hereafter 'the Company'). The Company is 100% owned by Roche Holding Ltd, (*Roche Holding AG*), a public company registered in Switzerland. Roche Holding Ltd is the parent company of the Roche Group, and therefore the Company is a member of the Roche Group. The main activity of the Company is the provision of financing to other affiliates of the Roche Group. Refinancing takes place on the bond or loan markets.

In 2019 the Company continued its financing activities on behalf of the Roche Group. The Company did not issue any new bonds in 2019. The Company entered into a new financing arrangement with another member of the Roche Group (see Note 5).

Statement of compliance

The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS). They have been prepared using the historical cost convention except for items that are required to be accounted for at fair value. They were approved for issue by the Board of Directors on 27 January 2020.

Key accounting judgements, estimates and assumptions

The preparation of the Annual Financial Statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and contingent amounts. Actual outcomes could differ from those management estimates. The estimates and underlying assumptions are reviewed on an on-going basis and are based on historical experience and various other factors. Revisions to estimates are recognised in the period in which the estimate is revised.

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

Segment reporting

The Company has only one operating segment and undertakes its financing operations in Switzerland. Therefore no segment reporting is included in these financial statements.

Foreign currency translation

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

Accounts receivable

Accounts receivable are carried at the original invoice amount less allowances made for doubtful accounts. The Company applies the simplified approach prescribed by IFRS 9, which requires the use of the lifetime expected loss provision from initial recognition of the receivables. The Company measures an allowance for doubtful accounts equal to the credit losses expected over the lifetime of accounts receivable.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and time, call and current balances with banks and similar institutions. Such balances are only reported as cash equivalents if they are readily convertible to known amounts of cash, are subject to insignificant risk of changes in their fair value and have a maturity of three months or less from the date of acquisition.

Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is determined by reference to quoted market prices or by the use of established valuation techniques such as option pricing models and the discounted cash flow method if quoted prices in an active market are not available ('fair value hierarchy'). Valuation techniques will incorporate observable market data about market conditions and other factors that are likely to affect the fair value of a financial instrument. The fair values of financial assets and liabilities at the reporting date are not materially different from their reported carrying values unless specifically mentioned in the Notes to the Annual Financial Statements.

Financial instruments

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset at amortised cost, transaction costs that are directly attributable to the acquisition of the financial asset.

<u>Financial assets at amortised cost</u>

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost, less any impairment losses. Interest income from these financial assets is included in financial income using the effective interest rate method. Assets at amortised cost are mainly comprised of loans receivable, accounts receivable, cash and cash equivalents.

<u>Impairment of financial assets</u>

For loans to related parties carried at amortised cost, the Company applies the general expected credit loss model. The Company considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. The following indicators are incorporated: internal credit rating, significant increases in credit risk on other financial instruments of the same borrower, actual or expected significant adverse changes in business, financial and economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations.
The Company assumes that the credit risk of such assets have increased significantly if they are more than 30 days past due.

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

Taxation

Income taxes include all taxes based upon the taxable profits of the Company, including withholding taxes payable on the distribution of retained earnings within the Roche Group. Other taxes not based on income, such as property and capital taxes, are included within other expenses.

Deferred tax assets and liabilities are recognised on temporary differences between the tax bases of assets and liabilities and their carrying values. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same taxation authority and when there is a legally enforceable right to offset them. Deferred taxes are determined based on the currently enacted tax rates applicable in each tax jurisdiction where the Company operates.

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

In 2019 Roche Group has adopted IFRS 16 'Leases', including any consequential amendments to other standards, effective 1 January 2019. The Group has also implemented various other minor amendments to existing standards and interpretations, which have no material impact on Roche Group's overall results and financial position. For further information on Group policies, please refer to the Roche Group Finance Report 2019.

None of these new and revised standards and interpretations has 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	
	2019	2018
Interest income – related parties	**22**	23
Total financial income – related parties	**22**	23

Financing costs *in millions of CHF*		
	Year ended 31 December	
	2019	2018
Interest expense	**(15)**	(16)
Amortisation of debt discount [9]	**-**	1
Guarantee fees – related parties	**(5)**	(6)
Total financing costs	**(20)**	(21)

Interest income and expenses are calculated using the effective interest method and relate to financial instruments measured at amortised cost.

3. Income taxes

Income tax expenses *in millions of CHF*		
	Year ended 31 December	
	2019	2018
Current income taxes	**(1)**	**(1)**
Deferred income taxes	**-**	**-**
Total income (expense)	**(1)**	**(1)**

The Company's local statutory tax rate is 13.04% (2018: 22.2%) and this is also the effective tax rate in these financial statements. The decrease in tax rate is due to the Swiss tax reform.

Income tax assets (liabilities) *in millions of CHF*			
	31 December 2019	31 December 2018	31 December 2017
Current income taxes			
- Assets	**-**	-	-
- Liabilities	**0**	0	0
Net current income tax assets (liabilities)	**0**	0	0

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 19 December 2019, the company granted a new loan to F. Hoffmann-La Roche Ltd, Basel in the amount of 25 million Swiss francs. The terms of the loans receivable are stated below.

Loans receivable – related parties *in millions of CHF*

	31 December 2019	31 December 2018	31 December 2017
Outstanding principal CHF 30 million, due 21 March 2018, interest rate 0.30%	**-**	-	30
Outstanding principal CHF 600 million, due 21 September 2018, interest rate 1.37%	**-**	-	600
Outstanding principal CHF 400 million, due 23 September 2018, at a yield of negative 0.1870%	**-**	-	400
Outstanding principal CHF 28 million, due 20 March 2019, interest rate 0.1870%	**-**	28	-
Outstanding principal CHF 25 million, due 19 March 2020, interest rate 0.30 %	**25**	-	-
Outstanding principal CHF 500 million, due 23 September 2022, interest rate 1.97%	**500**	500	500
Outstanding principal CHF 750 million, due 23 September 2024, interest rate 0.3725%	**750**	750	750
Outstanding principal CHF 500 million, due 24 September 2025, interest rate 0.4615%	**500**	500	-
Outstanding principal CHF 350 million, due 23 March 2029, interest rate 0.7211%	**350**	350	350
Outstanding principal CHF 400 million, due 24 September 2030, interest rate 1.0065%	**400**	400	-
Total loans receivable – related parties	**2,525**	2,528	2,630
Reported as:			
- Long-term loans receivable	**2,500**	2,500	1,600
- Short-term loans receivable	**25**	28	1,030
Total loans receivable – related parties	**2,525**	2,528	2,630

6. Accounts receivable / payable - related parties

The Company deposits surplus funds with Roche Pharmholding B.V. in its function as corporate cash pool leader for numerous Roche affiliates. Amounts deposited are immediately available and bear variable interest referenced to one month LIBOR. At 31 December 2019 the Company also had interest receivable from F. Hoffmann-La Roche Ltd, Basel in respect of the loans granted to that company (see Note 5).

Accounts receivable – related parties *in millions of CHF*

	31 December 2019	31 December 2018	31 December 2017
Accounts receivable with cash pool leader	**-**	-	-
Interest receivable – related parties	**7**	7	7
Total accounts receivable – related parties	**7**	7	7

Accounts payable – related parties *in millions of CHF*

	31 December 2019	31 December 2018	31 December 2017
Accounts payable with cash pool leader	**2**	1	4
Total accounts payable – related parties	**2**	1	4

7. Cash and cash equivalents

At 31 December 2019 the Company had no cash in its bank account (2018 and 2017: none).

8. Accrued interest

Accrued interest *in millions of CHF*	31 December 2019	31 December 2018	31 December 2017
Interest payable	**5**	5	5
Total accrued interest	**5**	5	5

9. Debt

Debt: movements in carrying value of recognised liabilities *in millions of CHF*	2019	2018	2017
At 1 January	**2,500**	2,600	2,598
Proceeds from issue of bonds	**-**	901	1,502
Repayment and redemption of bonds	**-**	(1,000)	(1,500)
Amortisation of debt discount [2]	**-**	(1)	0
At 31 December	**2,500**	2,500	2,600
Consisting of			
- Bonds	**2,500**	2,500	2,600
Total debt	**2,500**	2,500	2,600
Reported as			
- Long-term debt	**2,500**	2,500	1,599
- Short-term debt	**-**	-	1,001
Total debt	**2,500**	2,500	2,600

Recognised liabilities and effective interest rates of bonds *in millions of CHF*	Effective interest rate	31 December 2019	31 December 2018	31 December 2017
1% bonds due 21 September 2018, principal CHF 0.6 billion (ISIN: CH0180513068)	1.04%	**-**	-	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**	500	499
0.1% bonds due 23 September 2024, principal CHF 0.750 billion (ISIN: CH0358654975)	0.11%	**750**	750	750
0.25% bonds due 24 September 2025 principal CHF 0.5 billion (ISIN: CH0433761308)	0.25%	**500**	500	-
0.45% bonds due 23 March 2029, principal CHF 0.35 billion (ISIN: CH0359915409)	0.46%	**350**	350	350
0.75% bonds due 24 September 2030 principal CHF 0.4 billion (ISIN: CH0433761316)	0.74%	**400**	400	-
Total		**2,500**	2,500	2,600

The fair values of the bonds at 31 December 2019 are stated below. These are determined based on the observable market prices of the bonds. There are no pledges on the Company's assets in connection with the debt. All issued bonds are guaranteed by Roche Holding Ltd, the parent company of the Roche Group.

Fair value of bonds *in millions of CHF*	31 December 2019	31 December 2018	31 December 2017
1% bonds due 21 September 2018, principal CHF 0.6 billion (ISIN: CH0180513068), effective interest rate 1.04%	**-**	-	607
Zero coupon bonds due 23 September 2018, principal CHF 0.4 billion (ISIN: CH0358654967), effective interest rate -0.45%	**-**	-	402

1.625% bonds due 23 September 2022, principal CHF 0.5 billion (ISIN: CH0180513183), effective interest rate 1.64%	**529**	534	540
0.1% bonds due 23 September 2024, principal CHF 0.750 billion (ISIN: CH0358654975), effective interest rate 0.11%	**768**	753	750
0.25% bonds due 24 September 2025 principal CHF 0.5 billion (ISIN: CH0433761308), effective interest rate 0.25%	**512**	503	-
0.45% bonds due 23 March 2029, principal CHF 0.35 billion (ISIN: CH0359915409), effective interest rate 0.46%	**361**	349	351
0.75% bonds due 24 September 2030 principal CHF 0.4 billion (ISIN: CH0433761316), effective interest rate 0.74%	**425**	406	-
Total	**2,595**	2,545	2,650

Issuance of bonds – 2019

The Company did not issue any bonds during 2019.

Issuance of bonds - 2018

On 24 September 2018 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
Fixed 0.25% bonds due 24 September 2025, principal CHF 0.500 billion (ISIN: CH0433761308)	0.25%	500	500
Fixed 0.75% bonds due 24 September 2030, principal CHF 0.400 billion (ISIN: CH0433761316)	0.74%	400	401
Total		900	901

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

Redemption of bonds - 2019

The Company did not redeem any bonds during 2019.

Redemption of bonds - 2018

On the due date of 21 September 2018 the Company redeemed the fixed rate bonds with a principal of CHF 600 million. On 23 September 2018 the Company further redeemed the zero rate bonds with a principal of CHF 400 million. The cash outflow was CHF 1,000 million, plus accrued interest, and there was no gain or loss recorded on the redemption. The effective interest rate of these notes was 1.04% and -0.45% respectively.

Liabilities arising from financing activities

Liabilities arising from financing activities: movements in carrying value of recognised assets (liabilities)
in millions of CHF

	At 1 January	Cash flows Outflow (Inflow)	Financing costs	At 31 December
2019				
Debt	(2,500)	-	-	(2,500)
Interest payable [8]	(5)	15	(15)	(5)
Total liabilities arising from financing activities	**(2,505)**	**15**	**(15)**	**(2,505)**
2018				
Debt	(2,600)	99	1	(2,500)
Interest payable [8]	(5)	15	(15)	(5)
Total liabilities arising from financing activities	**(2,605)**	**114**	**(14)**	**(2,505)**

10. Equity

Share capital

At 31 December 2019, the authorised and issued share capital of the Company consisted of 1,000 shares with a nominal value of CHF 1,000 each, as in the preceding year. All the shares are owned by Roche Holding Ltd, a public company registered in Switzerland.

Dividends

On 1 April 2019 the shareholders approved the distribution of a dividend to Roche Holding Ltd of 5 million Swiss francs in respect of the 2018 business year and the Company's reserves (2018: none). The dividend distribution has been recorded against retained earnings in 2019.

Own equity instruments

The Company holds none of its own shares (2018 and 2017: none).

11. Contingent liabilities

At 31 December 2019 the Company does not have any material contingent liabilities (2018: none).

12. Related parties

Controlling shareholders

Roche Holding Ltd (Roche Holding AG), a public Swiss company owns all of the shares of Roche Capital Market Ltd (Roche Kapitalmarkt AG). Roche Holding Ltd is the parent company of the Roche Group, and therefore the Company is a member of the Roche Group.

As a member of the Roche Group, all of the Company's related party transactions are with Roche Group affiliates. The transactions include interest on and issues/repayments of loans given by the Company. In addition, the Company has a current account with Roche Pharmholding B.V., the corporate cash pool leader, as described in Note 6.

Related party transactions *in millions of CHF*

	Year ended 31 December	
	2019	2018
Interest income – related parties	**22**	23
Guarantee fees – related parties	**(5)**	(6)
Repayment of loans receivable - related parties [5]	**28**	1,030
Issue of loans receivable – related parties [5]	**(25)**	(928)
(Increase) decrease of cash pool balance with related parties [6]	**1**	(3)

Related party balances *in millions of CHF*	31 December 2019	31 December 2018	31 December 2017
Long-term loans receivable – related parties [5]	**2,500**	2,500	1,600
Short-term loans receivable – related parties [5]	**25**	28	1,030
Accounts receivable – related parties [6]	**7**	7	7
Accounts payable – related parties [6]	**(2)**	(1)	(4)

Subsidiaries and associates

The Company has no subsidiaries or associates.

Key management personnel

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

Board of Directors of Roche Capital Market Ltd		
Dr Alan Hippe	Chairman	Appointed 1 April 2011
Dr Gottlieb Keller	Member of the Board	Appointed 1 October 2008

The directors did not receive remuneration or payment from the Company for their time and expenses related to their services during 2019 and 2018 in addition to the Roche Group's remuneration.

13. Financial risk management

Roche Group risk management

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

Financial risk management

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

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

Credit risk

Credit risk arises from the possibility that counterparties to transactions may default on their obligations, causing financial losses for the Company. The objective of managing counterparty credit risk is to prevent losses of liquid funds deposited with or invested in such counterparties. The maximum exposure to credit risk resulting from financial activities, without considering netting agreements and without taking account of any collateral held or other credit enhancements, is equal to the carrying value of the Company's financial assets.

The Company considers a financial asset to be in default when the counterparty is unlikely to pay its obligations to the Company in full. In assessing whether a counterparty is in default, the Company considers both qualitative and quantitative indicators (e.g. overdue status) that are based on data developed internally and for certain financial assets also obtained from external sources. The following indicators are incorporated: internal credit rating, significant increases in credit risk on other financial instruments of the same borrower, actual or expected significant adverse changes in business, financial and economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations.

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

By line items in notes	Asset class	Carrying value	2019 Fair value	Carrying value	2018 Fair value
Long-term loan receivable – related parties [5]	Loans and receivables	**2,500**	**2,603**	2,500	2,557
Short-term loan receivable – related parties [5]	Loans and receivables	**25**	**25**	28	28
Accounts receivable – related parties [6]	Loans and receivables	**7**	**7**	7	7
Total		**2,532**	**2,635**	2,535	2,592

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

At 31 December 2019 the Company has no financial assets which are past due but not impaired (2018: none) and no financial assets whose terms have been renegotiated (2018: none).

For financial assets at amortised cost, the Company applies the general expected credit loss model. The Company considers the probability of default upon initial recognition of an asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Company compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition.

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 2019 the Company had financial liabilities with a principal amount of CHF 2,500 million (2018: CHF 2,500 million).

In 2012 the Company issued CHF 500 million fixed rate bonds with a coupon of 1.625% that will mature on 23 September 2022. The bonds are listed on the SIX Swiss Exchange. The Company received CHF 499 million, aggregate net proceeds from the issuance and sale of these bonds. The bond has interest coupons of CHF 8 million paid annually on 23 September.

In 2017 the Company issued CHF 750 million fixed rate bonds with a coupon of 0.1% that will mature on 23 September 2024 and CHF 350 million fixed rate bonds with a coupon of 0.45% that will mature on 23 March 2029. The bonds are listed on the SIX Swiss Exchange. The Company received CHF 750 million and CHF 350 million, respectively, aggregate net proceeds from the issuance and sale of these bonds. The bonds have interest coupons of CHF 0.8 million paid annually on 23 September and CHF 1.6 million paid annually on 23 March, respectively.

In 2018 the Company issued CHF 500 million fixed rate bonds with a coupon of 0.25% that will mature on 24 September 2025 and CHF 400 million fixed rate bonds with a coupon of 0.75% that will mature on 24 September 2030. The bonds are listed on the SIX Swiss Exchange. The Company received CHF 500 million and CHF 401 million, respectively, aggregate net proceeds from the issuance and sale of these bonds. The bonds have interest coupons of CHF 1.25 million and CHF 3 million paid annually on 24 September.

At 31 December 2019 there are no other financial liability contractual cash flows.

Market risk

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

At 31 December 2019 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 rates. The Company's variable interest-bearing financial assets are the receivable balance with the corporate cash pool leader (see Note 6) referenced to one month LIBOR.

At 31 December 2019 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.

Interest rate risk

The Company mainly raises debt on a fixed rate basis for bonds and notes. The Company is exposed to movements in interest rates, mainly for its Swiss franc financial instruments. The interest rate risk is managed on a group level. Please refer to the Roche Group Annual Finance Report.

Capital

The capital management of the Company is managed within the Roche Group. The Company's objectives when managing capital are:

- To safeguard the Company's ability to continue as a going concern, so that it can continue to provide financing activities on behalf of the Roche Group.
- To maintain sufficient financial resources to mitigate against risks and unforeseen events.

Capital is monitored on the basis of the capitalisation, which is calculated as being debt plus equity. Information on the Company's debt and equity is reported to senior management as part of the Roche Group's regular internal management reporting. The Company's capitalisation is shown in the table below.

Capital *in millions of CHF*

	31 December 2019	31 December 2018	31 December 2017
Debt [9]	**2,500**	2,500	2,600
Equity	**25**	29	28
Capitalisation	**2,525**	2,529	2,628

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

KPMG

Independent Auditor's Report

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

Opinion

We have audited the financial statements of Roche Capital Market Ltd, which comprise the balance sheet as at 31 December 2019, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 2 to 15) give a true and fair view of the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the IESBA Code of Ethics for Professional Accountants, as well as the requirements of the Swiss audit profession, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

Other Information in the Annual Report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the financial statements and our auditor's reports thereon.

Our opinion on the financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.

— Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

KPMG AG

Mark Baillache Licensed Audit Expert Auditor in Charge	Marc Ziegler Licensed Audit Expert

Basel, 27 January 2020