

**“We’re well on our way to meeting those higher expectations.”**

Severin Schwan, CEO of Roche, talks about how he intends to make the company grow faster than the market, the benefits of the Genentech takeover, and the impact of the US healthcare reform. He also holds out the prospect that dividends won’t disappoint.

**Have you been vaccinated against swine flu?**

Severin Schwan: No, I haven’t. But I always take a pack of Tamiflu with me when I travel.

**Can we conclude that swine flu isn’t as dangerous as it’s made out to be?**

Schwan: Swine flu shouldn’t be underestimated. The WHO issued a warning about the consequences of a pandemic some time ago. Although most cases of H1N1 flu turn out to be mild, the WHO reports that it has so far claimed over 6000 lives. The pandemic could also result in major disruptions to public life, for example if schools and entire companies have to close.

**The anti-flu drug Tamiflu already accounts for around 5% of Roche’s turnover. Do you expect this share to increase significantly in the coming months as a result of swine flu?**

Schwan: Demand is strong. This year our turnover from Tamiflu will exceed 2.7 billion francs. However, it’s difficult to make a long-term forecast, because the course of both the pandemic and seasonal flu are hard to predict. We’ll continue to see substantial fluctuations in Tamiflu sales in future.

**How do you respond to the accusation that your Pharmaceuticals Division would no longer be growing so vigorously without Tamiflu sales?**

Schwan: We’re still growing faster than the market with or without Tamiflu. In particular, we’re experiencing double-digit growth from our major cancer drugs.

**In the third quarter Roche was able to repeat the good business results of the previous months. Will this trend continue?**

Schwan: Yes, in both the Pharmaceuticals Division and the Diagnostics Division we will enjoy significantly stronger growth than the market as a whole.

**You’ve adjusted your estimate of sales for the Pharmaceuticals Division upward. Can you actually meet that figure?**

Schwan: Absolutely. We’re well on our way to meeting those higher expectations.

**You seem very confident. Are you aiming for double-digit growth for the Pharmaceuticals Division in the long term?**

Schwan: We’ll be announcing our targets for 2010 at the beginning of the new year. However, I’m confident that we’ll continue to gain market share over the long term thanks to our strong development pipeline.

**The most important pharmaceutical market in the world is the USA. How will US President Barack Obama's healthcare reform affect Roche?**

Schwan: I welcome the new administration's efforts to extend health insurance cover to the entire US population, thus improving access to drugs. We'll benefit from that. At the same time, however, the cost pressure is mounting. I can't say at the moment exactly what the repercussions of the healthcare reform will be. Nevertheless, I'm sure that we'll be well positioned in the USA, as elsewhere, thanks to our highly innovative products.

**Then you don't expect any dramatic slump in sales or profit margins as a result of the healthcare reform?**

Schwan: We don't believe that the healthcare reform will affect us much. Demand for our innovative products, for example the cancer drug Avastin, which provides a significant benefit for severely ill patients, will remain buoyant.

**So Avastin is one of the company's growth drivers. Won't the potential of Avastin soon be exhausted?**

Schwan: Over 450 studies on more than 30 different cancer types are ongoing. The potential of Avastin is far from exhausted.

**Can sales of up to 10 billion francs be achieved for Avastin alone?**

Schwan: With the currently approved indications for Avastin we expect total sales of up to 8 billion francs. Added to this is the potential of new indications. However, it's still too early to quote hard figures.

**Roche has a range of successful products on the market in the form of Avastin, MabThera, Herceptin, Tarceva, and Pegasys. How will you ensure that your research pipeline doesn't suddenly run dry?**

Schwan: We currently have 63 completely new drug candidates under development – ten of them already at a very advanced stage. Plus there are numerous additional indications. This pipeline is unique in the industry.

**But your focus is still quite narrow. 50% of your sales are in the field of oncology. That also creates risks.**

Schwan: We're clearly focussed on the two divisions Pharmaceuticals and Diagnostics, but we have a very broad footing within these areas. Apart from new cancer drugs, we're also working on promising developments in the fields of diabetes, cardiovascular diseases, inflammatory diseases, and neurological disorders.

**How will you ensure a flow of innovations in the future?**

Schwan: With the aid of an environment that allows a broad range of approaches. If you continuously tell people what they have to do, there won't be any innovations. I believe in a decentralised management approach and small headquarters. You have to allow sufficient latitude, especially for creative scientists.

**Doesn't the complete takeover of your US biotech subsidiary Genentech show that you'll be keeping your researchers on a shorter lead in future?**

Schwan: No, that impression would be wrong. Quite the contrary – we will continue to manage Genentech research as an independent centre. It's for this reason that the Head of Genentech research reports directly to me.

**But the top people could cut and run.**

Schwan: We were concerned of that at first, but it didn't come to pass. The top scientists stayed with us because we give them the necessary room for manoeuvre. Moreover, Genentech's scientists can now freely access existing Roche technologies and our network of partners. This opens up whole new opportunities, especially in cooperation with the Diagnostics Division.

**How are you progressing with the integration of Genentech?**

Schwan: The integration process is exceeding expectations in every respect. We've been able to keep hold of the top scientists in research and development. At the same time, we've been able to optimise our global structures and realise substantial synergies, for example in manufacturing and administration.

**Does that also apply to the repayment of the funds borrowed for the Genentech takeover?**

Schwan: Yes, it does. Because our business is very healthy, we have a strong cash flow. This will make it possible to pay off 25% of our debt next year. By 2015 our net cash assets will be in the black again.

**Isn't there a possibility of further acquisitions by then?**

Schwan: We're always interested in outside innovations. As in the past, we will continue to pursue joint ventures, licensing agreements, and small and medium-size acquisitions.

**The takeover of Genentech raised fears here that Roche could increasingly move its research operations to the USA and that Switzerland could lose its importance as a research location. What are your plans in Switzerland?**

Schwan: We've established ourselves wherever we find the best scientists and a fertile environment for innovations. We're pursuing our research in the USA, in Europe, in Switzerland of course, and also in Asia. There are no geographic borders in research.

**Is it therefore true to say that Switzerland will be losing importance for Roche as a research location?**

Schwan: No, Switzerland remains a good location for us. Less than 1% of our turnover is in Switzerland but we invest around a fifth of our global research and development budget of around 9 billion francs here. This policy will not change in the foreseeable future. Switzerland will remain an important research location for us.

**Do you see risks for Switzerland in this respect?**

Schwan: Yes, competitive pressure from other international research locations, especially in Asia, is mounting. It's essential that Switzerland remain open to new developments and signal that it values innovative sectors. That said, Switzerland is in an excellent position, as it boasts great legal certainty, good universities, and a highly educated population.

**Then where exactly is the rub?**

Schwan: I don't wish to engage in petty criticism of Switzerland. Overall we're very happy with the location and will continue to invest here. We remain faithful to Switzerland as a location. And I'm sure that the population and political community are aware of the valuable contribution our industry makes to the country.

**Even when you find yourself in the political firing line because drugs are so much more expensive in Switzerland than abroad?**

Schwan: So it's often said, but it's not true. Prices for innovative drugs are no higher in Switzerland than elsewhere. In fact, on average drugs cost less in Switzerland than in Denmark or Germany.

**But a recent study in which the industry association Interpharma played a part showed that prices here are higher and that a potential saving of 450 million francs could be made.**

Schwan: High prices in Switzerland in comparison to other countries apply mainly to generics, i.e. drugs whose patents have expired. There's a need to take action in this respect, and I assume that the differences will disappear once the ongoing extraordinary price review has been completed. By contrast, the prices of specialised, highly innovative drugs are often lower in Switzerland than abroad.

**Be that as it may, drug prices are a key factor contributing to the cost explosion within the healthcare system and higher health insurance premiums.**

Schwan: Of course pressure on prices is increasing substantially. But we also have to look at this in context: Drug costs are only a small part of healthcare costs and pale in comparison to hospital and nursing costs. Moreover, innovative drugs such as Herceptin, MabThera, and Avastin have revolutionised cancer treatment. Just a few years ago the diagnosis of cancer was tantamount to a death sentence. Today, thanks to these drugs, we can significantly extend life and tangibly improve patients' quality of life. At Roche we will continue to put a premium on innovation.

**What can investors expect from you?**

Schwan: We hold a unique strategic position with our link between pharmaceuticals and diagnostics. This gives us a long-term competitive edge. We are easily the biggest biotech company in the world and have one of the most robust pipelines in the industry. And we're continuously improving efficiency within the company. On this basis we'll continue to create added value for shareholders.

**At an investors' meeting of ZKB in Zurich you admitted that this is not sufficiently reflected in Roche's share price. Do investors underestimate your pipeline and the potential of your products?**

Schwan: Investors rate our pipeline and the potential of our products substantially lower than we do. This may have something to do with the fact that investors have become more risk-averse as a result of the economic crisis.

**Couldn't it also have something to do with Novartis's stake in Roche?**

Schwan: No.

**What expectations can shareholders have with regard to dividends?**

Schwan: Despite the Genentech transaction we're sticking to our dividend policy. In view of our good performance I can say this: There won't be any disappointments.