

# **Annual Media Conference**

**4 February 2009**

## **Address by Erich Hunziker**

Deputy Head of the Executive Committee  
Chief Financial Officer

**(The spoken German text is definitive)**

Good morning Ladies and Gentlemen

**2008: Excellent operational performance and limited adverse effects in a highly volatile financial environment**

The presentations by Pharma and Diagnostics have illustrated how negative effects of a tougher economic environment have been compensated by productivity increases.

The financial income of the Group was influenced by several factors: since we reduced our debt by 2.3 billion Swiss francs and spent over 5 billion francs for acquisitions like Ventana and the increase of our stake in Chugai, we had on average in 2008 more than 4 billion francs less liquid funds available for investments than in 2007. Due to this fact and the significantly lower interest rates in the second half of 2008 we generated - at the same risk level - a reduced financial income.

Since we had sold most of our equities in 2007, already, the overall damage of the financial crisis was within reasonable dimensions.

On the positive side we were able to further reduce the tax rate of the Group.

**Group operating performance 2008**

***Strong performance in a difficult environment***

We continued to focus on our strategic products and realised some income by selling "tail" products. The production cost grew a mere 2%. Since products with third party profit sharing such as Bonviva showed strong sales growth, the respective payments to third parties increased. The increase of the Marketing and Distribution expenses reflects on one hand a streamlining of our customer support organisations in the mature markets, on the other side a build up in the growth markets Eastern Europe and Asia.

According to a study of the European Union in 2007 our R&D-investment was the second largest of all companies in Europe, the eight largest of all companies on a global scale. Since several of the companies ahead of us in 2007 were in difficulties in 2008, Roche may now

well be amongst the top 5 to 6 R&D-Investors worldwide.

## **Net financial income 2008**

### ***Decline due to lower liquid funds, lower interest rates and financial crisis***

Compared to 2007 the financial income decreased by 598 million francs. The reduction of interest income of 609 million francs will be explained in the next chart.

Since we had sold most of our equities in 2007 with attractive gains, the respective income in 2008 decreased by 180 million francs. In 2007 we had reduced our debt which now resulted in a decrease of 67 million francs in interest payments. In a highly volatile environment the forex loss could be lowered by 88 million francs.

## **Interest and debt security income 2008**

### ***Decline due to lower liquid funds, lower interest rates and financial crisis***

As explained at the beginning of my presentation the liquid funds available for investment in 2008 were on average 4 billion francs lower than in 2007 due to debt repayments and acquisitions. In addition, interest rates came down significantly in the second half of 2008. As a result, interest income decreased by 374 million francs.

At group level (including Genentech), the net losses on sale of debt securities and debt security derivatives were 164 million francs higher. Another 86 million francs higher losses were occurred on fixed income securities carried at 'fair-value-through-profit-and-loss'.

Considering the fact that in 2008 on average the Group had 20 billion francs of liquid funds available for investment, the occurred losses reflect our conservative policies for investments and the strict risk management systems in the finance area.

## **Group tax rate 2008**

### ***Considerable decline driven by a lower Roche tax rate and one-time effects***

Like in the years before, Genentech and Chugai have paid quite high taxes in their respective environments. We were able to further decrease the Roche Group tax rate to 23.4 %. This was due to lower profits in high tax environments and favourable developments in Switzerland.

## **Group results 2008**

### ***Core EPS at constant exchange rates increased***

The excellent operating results and the limited impacts of the financial crisis were not able to totally compensate for the decrease of the Tamiflu pandemic business and the negative currency impacts. Net income in Swiss francs decreased by 5 %, but we still achieved our core EPS-guidance by increasing it at constant exchange rates by 2%.

## **Free cash flow 2008**

### ***Free cash flow of CHF 5 billion used for acquisitions***

The free cash flow of the operating business increased to 12.4 billion francs. The after taxes and dividends remaining free cash flow of the Group of 5 billion francs was used for acquisitions.

## **Net cash maintained at Group level**

Due to the acquisitions, net cash remained in the range of the 2007 level.

## **Balance sheet**

***84% long-term financing, 71% equity***

Roche faces the Genentech transaction with a very strong balance sheet.

## **Committed to continuously increase pay-out ratio over three years**

In the last 22 years Roche has continuously increased its dividend. Based on the excellent result, the Board proposes to the Annual Shareholder Meeting of March 10, 2009 that we increase the dividend to 5 Swiss francs.

## **Our objectives for 2009**

Let me close with our outlook for 2009. Barring unforeseen developments

- 1** We expect an above-market sales growth in both divisions.
- 2** We expect a mid-single-digit local currency sales growth for both divisions and the Group.
- 3** The Core Earnings per share target is to remain at the high level of 2008 (at constant exchange rates) in spite of increased investments in R&D and an expected lower net financial result.