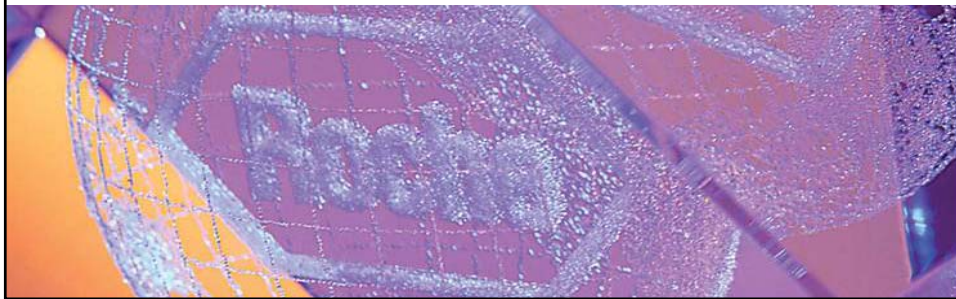




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**Roche Interim Results 2005**  
*Accounting Workshop*  
*Ian Bishop*



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**Equity Compensation Plans**

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**Earnings Per Share**

**Question & Answer Session**

## Equity Compensation Plans

### *Agenda*



- Operating expenses – impact on actual results
- Income taxes
- Impact on equity
- Questions & Answers

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## Equity Compensation Plans

### *Operating expenses*



- Impact on interim results 197m CHF
  - 154m CHF equity-settled plans
  - 43m CHF cash-settled plans
- FY '05 expense for equity-settled plans still approx. 350m CHF
  - depends on Genentech stock price
  - depends on USD/CHF forex
- FY '06 expense for equity-settled plans initial est. 420m CHF
  - depends mainly on Genentech stock price for '05/ '06 issues
  - will be updated at year-end '05

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## Equity Compensation Plans

### *Income taxes: main principles*

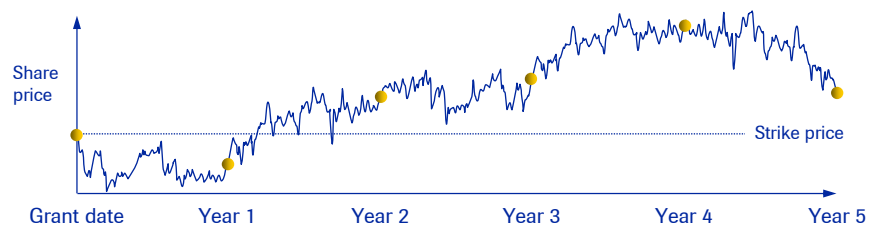


- Operating expense is fixed at grant date and spread over vesting period, but ...
- Tax benefit variable (depending on market price) and booked until exercise
  - tax benefit can be zero (if option out-of-the-money)
  - tax benefit can include catch-up from prior periods
  - overall cap on tax benefit (operating expense multiplied by tax rate)
  - tax impacts last beyond vesting until exercise

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## Equity Compensation Plans

### *Income taxes : theoretical example*



<b>Operating expense</b>	-100	-100	-100	-	-
<b>Tax benefit</b>	0	60	30	30	-40
<b>Effective tax rate</b>	0%	60%	30%	n/a	n/a

\* Assumptions: 3 year cliff vesting plan, 40 % local tax rate, no exercises

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## Equity Compensation Plans

### *Income taxes: the story so far*



Genentech equity compensation plans:

	HY 2004	FY 2004	HY 2005
	USD m	USD m	USD m
Operating profit	(35)	(105)	(105)
Tax benefit	19	29	61
Effective tax rate	54%	27%	58%

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## Equity Compensation Plans

### *Impact on equity*



- Direct to equity impact - 1,341m CHF increase in equity
  - 688m CHF retained earnings
  - 653m CHF minority interests
- Cash received from exercises - 560m CHF
- Income taxes (current and deferred) - 580m CHF
- ECP expense - 200m CHF

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## Equity Compensation Plans

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## Earnings Per Share

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## Question & Answer Session

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## Earnings Per Share *Agenda*

- Impact of changes in IFRS
- Core EPS
- Modelling EPS
- Questions & Answers

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## **Earnings Per Share**

### *Impact of changes in IFRS*



- EPS 2004 restated for retrospective IFRS changes
- EPS 2004 not restated for prospective changes (e.g. goodwill amortisation only stopped from 1 Jan 2005)
- Impact of IFRS changes assessed at 8 March 2005 workshop
- Restated HY 2004 and FY 2004 available from Investor Relations

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## **Earnings Per Share**

### *Core EPS*



- Excludes exceptional items
- Excludes amortisation of intangible assets
- Includes other “one-time effects” that are part of the normal business operations (restructuring, product disposals, etc.)
- Material items are disclosed elsewhere
- Reasonable (but not perfect) indicator of earnings capacity

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## Earnings Per Share Core EPS



	in millions of CHF	
	Six months ended 30 June	
	2005	2004
<b>Profit from continuing businesses before exceptional items and core net income</b>		
Profit from continuing businesses	3,241	3,009
Goodwill amortisation	-	282
Major legal cases	146	-
- income taxes	(55)	-
	91	-
Changes in Group organisation	-	-
- income taxes	-	-
Exceptional financial income	-	(965)
- income taxes	-	278
	-	(687)
<b>Profit from continuing businesses before exceptional items</b>	<b>3,332</b>	<b>2,604</b>
Minority interests		
- Profit from continuing businesses	(444)	(204)
- Goodwill amortisation	-	(58)
	(444)	(262)
<b>Net income attributable to Roche shareholders (continuing businesses before exceptional items)</b>	<b>2,888</b>	<b>2,342</b>
Amortisation of intangible assets	498	504
- income taxes	(179)	(181)
- minority interests	(37)	(41)
	282	282
<b>Core net income</b>	<b>3,170</b>	<b>2,624</b>

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## Earnings Per Share Core EPS



### EPS (continuing businesses before exceptional items) and Core EPS

Six months ended 30 June	EPS (continuing businesses before exceptional items)		Core EPS	
	2005	2004	2005	2004
<b>Net income</b> <sup>(millions of CHF)</sup>	<b>2,888</b>	2,342	<b>3,170</b>	2,624
Elimination of interest expense, net of tax, of convertible debt instruments, where dilutive	23	25	23	25
Increase in minority share of net income, net of tax, assuming all outstanding Genentech and Chugai stock options exercised	(27)	(18)	(30)	(21)
<b>Net income used to calculate diluted earnings per share</b>	<b>2,884</b>	2,349	<b>3,163</b>	2,628
<b>Per share information</b> <sup>(millions of shares and non-voting equity securities)</sup>				
Weighted average number of shares and non-voting equity securities in issue	843	840	843	840
Adjustment for assumed conversion of convertible debt instruments, where dilutive	14	19	14	19
Adjustment for equity compensation plans, where dilutive	1	-	1	-
<b>Weighted average number of shares and non-voting equity securities in issue used to calculate diluted earnings per share</b>	<b>858</b>	859	<b>858</b>	859
<b>Earnings per share (diluted)</b> <sup>(CHF)</sup>	<b>3.36</b>	2.73	<b>3.69</b>	3.06

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## Earnings Per Share

### *Modelling EPS*



- Minority interests
- Number of shares (net of Treasury shares)
  - increasing as Treasury share holdings reduce
- Convertible debt
  - LYONs V : 30m USD earnings (annual), 11m shares
- Genentech and Chugai stock options
  - growing earnings dilution (HY '05 27m CHF)
- Roche stock options
  - growing per share dilution (HY '05 0.8m shares)

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## Equity Compensation Plans

### Earnings Per Share

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### Question & Answer Session

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