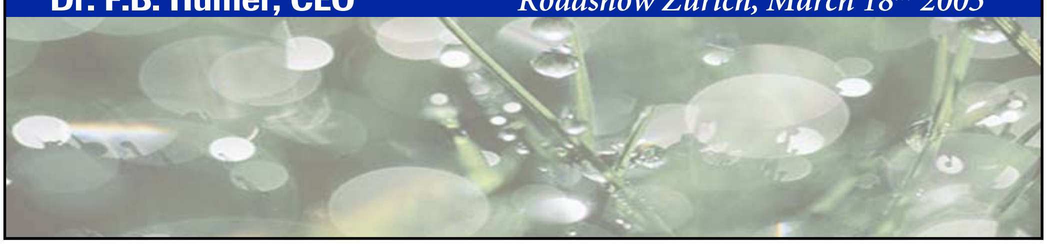
Market dynamics in the Healthcare Industry

The relevance of Roche's strategy in the current market environment

Dr. F.B. Humer, CEO *Roadshow Zurich, March 18th 2005*



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10. Loss of key executives or other employees; and…
11. Adverse publicity or news coverage

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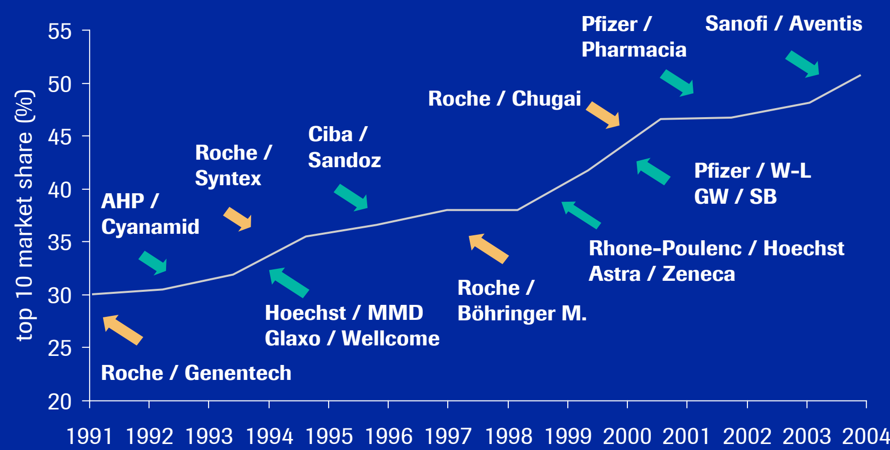
Five major dynamics in Healthcare market

The growing importance of doing it differently – five answers

2004 results and outlook

1. Consolidation in the Pharma industry ongoing

Top ten companies now above 50 %



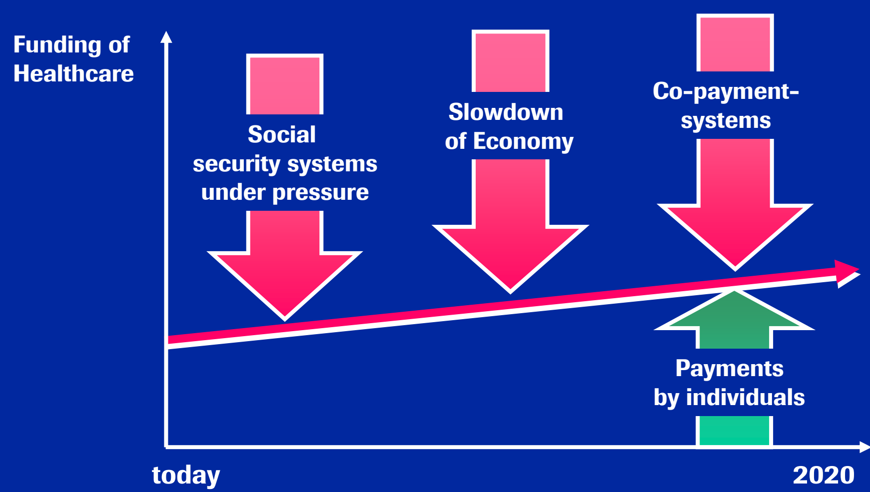
Source: Wood Mackenzie

2. Industry center is shifting to the US

European markets losing ground

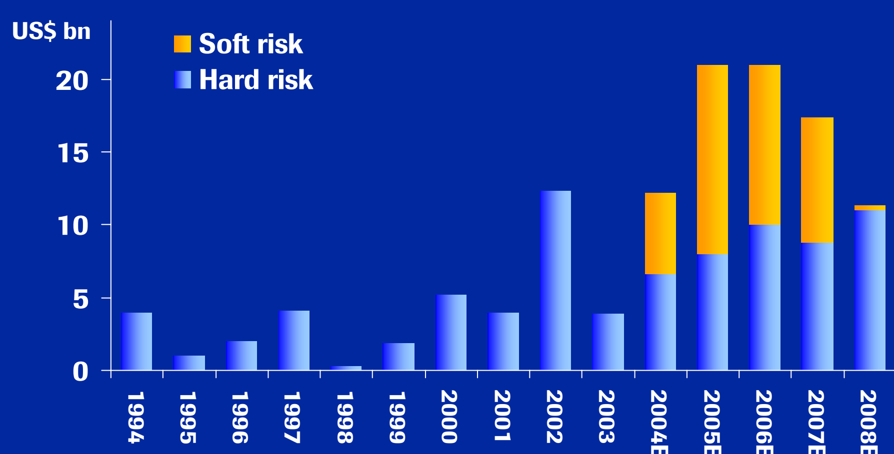
- Market dynamics
  - 1990: US and Europe similar market size
  - 2004: US twice the size of Europe
    - ➢ **move of talented people to the US**
- Higher R&D investment in the US
  - 1990: Europe invested twice as much as the US (€ 21 bn)
  - 2004: US invested around 30 % more (€ 29 bn)
- US now leading inventor of New Chemical Entities
  - 70 % of sales of new medicines since 1998 generated in the US

3. Funding becoming more limited



4. Generisation risk

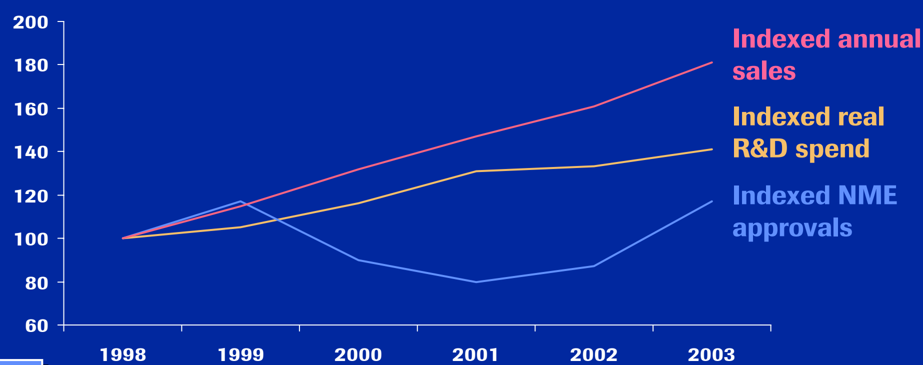
Not the same for all



Source: Deutsche Bank 2004

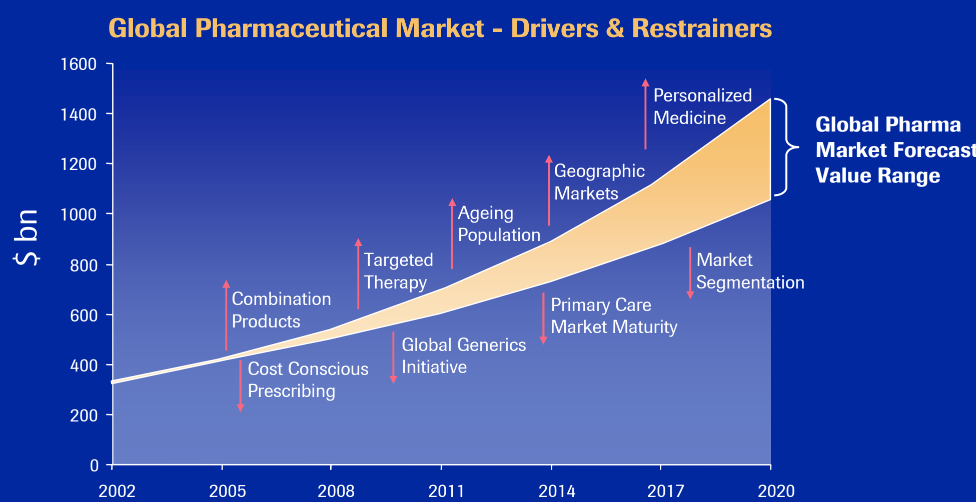
5. R&D productivity has been in decline

But the important question is sales value per drug



no. of drugs	1998	1999	2000	2001	2002	2003	
	30	35	44	48	54	67	> US$ 1bn
	2	4	5	8	9	10	> US$ 3bn

Outlook: Future growth will depend on the success of differentiated, targeted, and cost effective treatments



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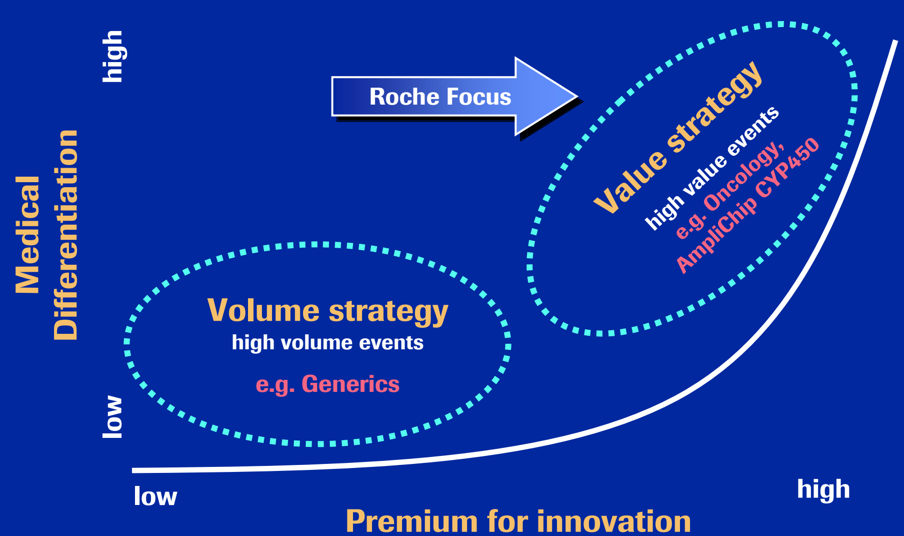
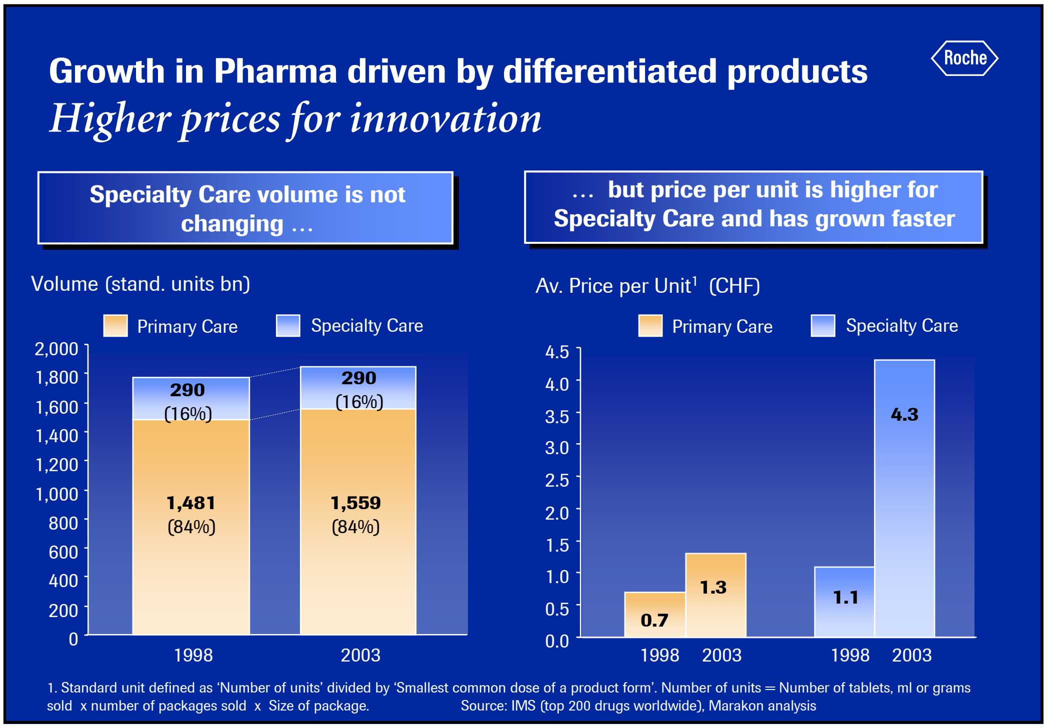
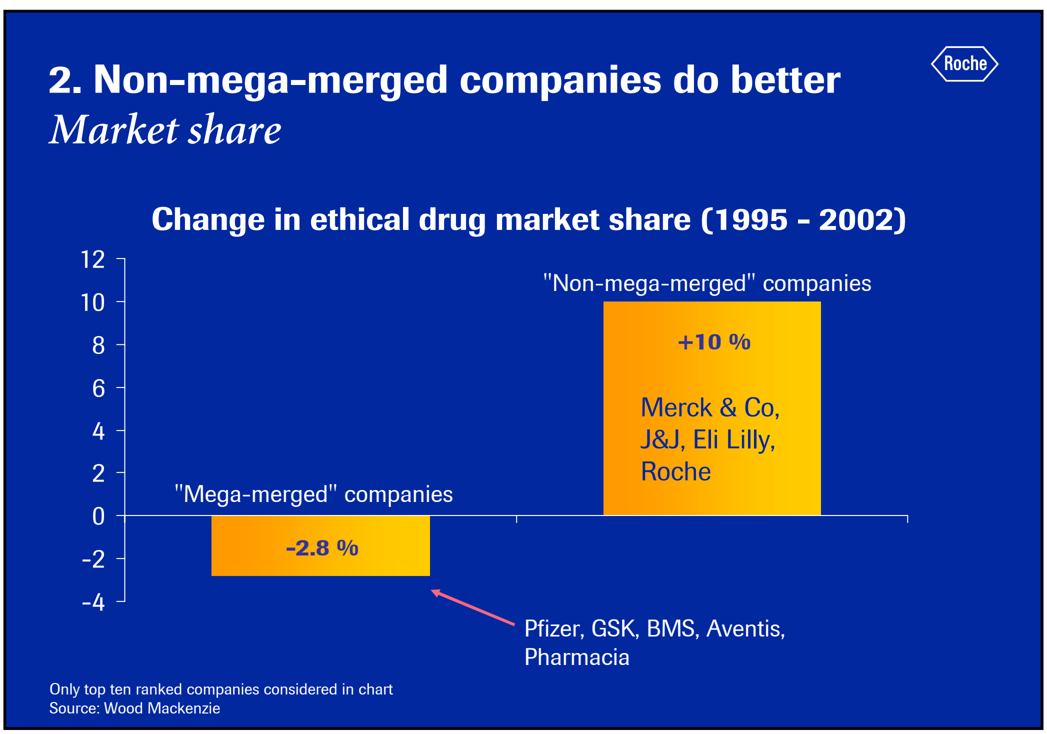
2004 results and outlook

1. Roche is a clear value player

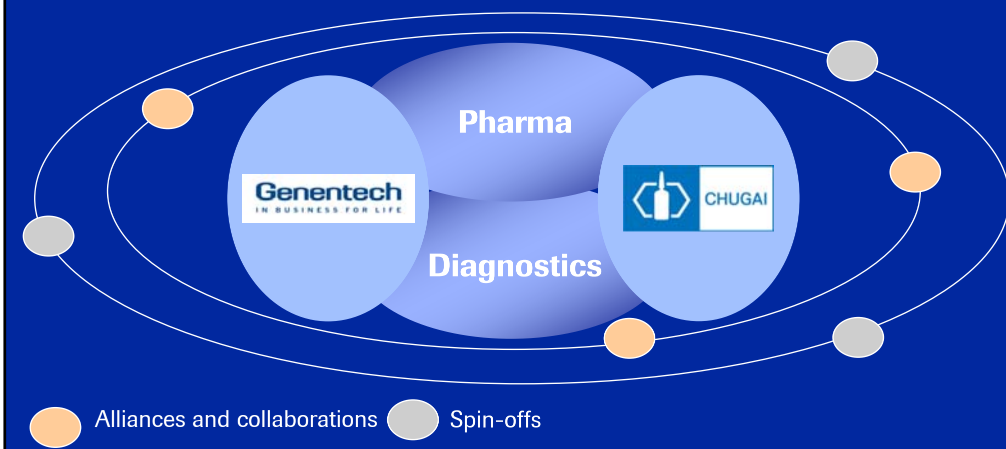



Roche
Growth in Pharma driven by differentiated products
Higher prices for innovation
Specialty Care volume is not changing …
… but price per unit is higher for Specialty Care and has grown faster
Volume (stand. units bn)
Primary Care
Specialty Care
2,000
1,800
1,600
1,400
1,200
1,000
800
600
400
200
0
290 (16%)
1,481 (84%)
290 (16%)
1,559 (84%)
1998
2003
Av. Price per Unit¹ (CHF)
Primary Care
Specialty Care
4.5
4.0
3.5
3.0
2.5
2.0
1.5
1.0
0.5
0.0
0.7
1.3
1.1
4.3
1998
2003
1998
2003
1. Standard unit defined as 'Number of units' divided by 'Smallest common dose of a product form'. Number of units = Number of tablets, ml or grams sold x number of packages sold x Size of package.
Source: IMS (top 200 drugs worldwide), Marakon analysis


Roche
2. Non-mega-merged companies do better
Market share
Change in ethical drug market share (1995 - 2002)
12
10
8
6
4
2
0
-2
-4
"Non-mega-merged" companies
+10 %
Merck & Co, J&J, Eli Lilly, Roche
"Mega-merged" companies
-2.8 %
Pfizer, GSK, BMS, Aventis, Pharmacia
Only top ten ranked companies considered in chart
Source: Wood Mackenzie

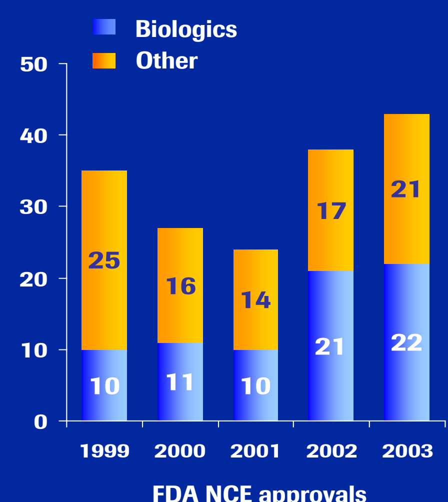
3. Unique innovation model

Roche expertise combined with external dynamism



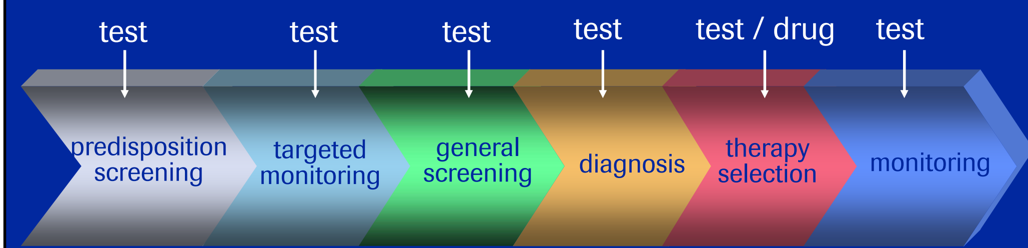
4. Biologics – increasing part in Innovation

- Roche:
  - biggest producer
  - second biggest biotech company
- Partnering important



Source: FDA

5. Diagnostics and Pharma under one roof:
Solutions along the value chain
Enable better medical decision making



Earlier diagnosis
- periodic disease status checks
- earlier treatment

Prevention
- lifestyle, nutrition, medicine

Patient stratification
- differentiated treatment
- use of pharmacogenomics
  - → efficacy
  - → avoid adverse events

Five major dynamics in Healthcare market

The growing importance of doing it differently
– five answers

2004 results and outlook

2004: Substantial progress in four key areas

Organic growth well above the market

1. Strategy: *Pure Healthcare focus*

- Focus on high value businesses – OTC divested

2. Operation: *Record level*

- Sales growth substantially above world market - in both divisions
- Record level of Group Operating Profit
- Substantial improvement in operating margin1 (Group + 2.2 pp)
- Strong increase in Net Income from continuing businesses (+41 %) and more than doubled Group Income

[1] before exceptional items, continuing businesses

2004: Substantial progress in four key areas

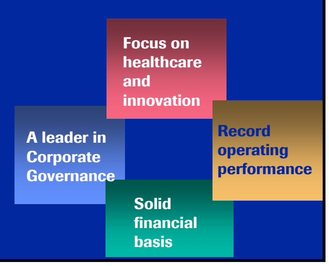
Conditions in place for balanced financial income

3. Finance: *Solid basis going forward*

- Group debt considerably reduced by CHF 6.3 bn
- Net liquidity almost doubled (to CHF 11.7 bn)
- Equity ratio up to 57 % (from 49 %)

4. Corporate Governance & Sustainability: *Among the leaders*

- Independent Lead Director appointed
- New CEC structure
- Policy on clinical trial data base established
- Inclusion of Roche in major SRI indices[1]



[1] FTSE4Good, Dow Jones Sustainability Index (DJSI)

2004: Sales growth well ahead of market

	2003 CHF bn	2004 CHF bn	% change in CHF	% change in local	USD growth
Pharmaceuticals	**19.8**	**21.7**	**10**	**13**	**19**
Roche Rx	13.2	14.0	5	8	14
Genentech Rx	3.4	4.5	34	45	45
Chugai Rx	3.2	3.2	1	3	10
Diagnostics	**7.4**	**7.8**	**6**	**8**	**14**
Group continuing	**27.2**	**29.5**	**9**	**12**	**18**
OTC (discontinuing)	1.8	1.8	-1	1	7
VFC (discontinuing)[1]	2.3	-	-100	-100	-100
Group	**31.2**	**31.3**	**0**	**3**	**8**

[1] consolidated until 30 September 2003

2004: Group results[1]
Record operating profit

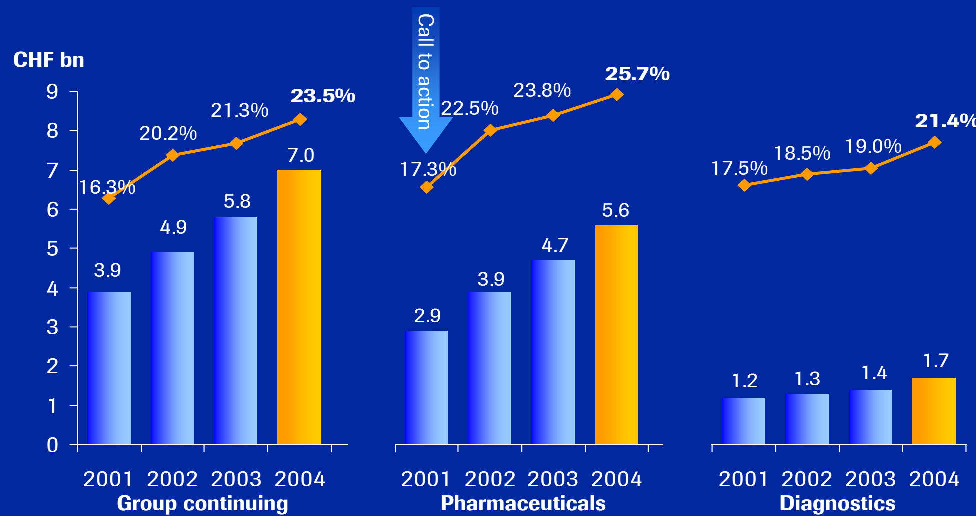
	Group continuing[2] CHF bn	% change CHF	% change local	Group CHF bn	% change CHF	% change local
Sales	**29.5**	**+9**	**+12**	**31.3**	**+0**	**+3**
EBITDA	**9.2**	**+15**	**+19**	**9.6**	**+11**	**+15**
% of sales	*31.3*	*+1.7 p*		*30.6*	*+3.0 p*	
Operating profit before exceptional items	**7.0**	**+20**	**+24**	**7.3**	**+16**	**+20**
% of sales	*23.5*	*+2.2 p*		*23.2*	*+3.1 p*	
Changes Group organisation	**-0.2**	**-**		**2.3**	**-**	
Operating profit	**6.2**	**+12**	**+16**	**9.0**	**+61**	**+65**
% of sales	*20.9*	*+0.6 p*		*28.7*	*+10.8 p*	
Financial income	**-0.3**	**-46**		**-0.4**	**-46**	
Except. inc. bond con/red	**0.9**	**-**		**0.9**	**-**	
Taxes	**-1.9**	**+35**		**-2.3**	**+62**	
tax rate in %	*28.4*	*-0.6 p*		*24.7*	*-4.9 p*	
Net income	**4.3**	**+41**		**6.6**	**+116**	
% of sales	*14.7*	*+3.4 p*		*21.2*	*+11.4 p*	

[1] vs. 2003 [2] excluding OTC & VFC

Roche

Operating profit[1]

Continuous improvement each year



[1] before exceptional items

Roche

2005: Roche Pharma - An industry leading phase III pipeline with 28 ongoing and planned projects*

… building the base for future growth

Phase III ongoing

- MabThera CLL
- MabThera maintenance iNHL
- Xeloda mCRC 1st/2nd line combo
- Xeloda adjuvant CRC combo
- Xeloda adjuvant BC
- Tarceva pancreatic Ca
- Avastin NSCLC
- Avastin adjuvant CRC
- Avastin pancreatic Ca
- Avastin mBC
- Avastin RCC
- Bondronat MBP
- Herceptin adjuvant BC
- Herceptin mBC combo hormonal
- CERA renal anemia
- MRA RA
- MRA SoJIA
- MabThera AI diseases
- MabThera RA TNF non-responders
- Xolair pediatric asthma
- Lucentis MD
- ED-71 osteoporosis

Phase III to start

- Tarceva NSCLC 1st line
- Tarceva adjuvant NSCLC
- Herceptin gastric Ca
- Avastin ovarian Ca
- CERA chemotherapy-induced anemia
- MabThera RA DMARD failures

* excl. filed projects

Value creation through marketed mega brands and a risk balanced, differentiated pipeline

Roche

Current

- Xeloda
- Herceptin
- Avastin
- Molecular Diagnostics
- Pegasys
- Diabetes Care
- NeoRecormon
- Immuno-Diagnostics
- CellCept
- MabThera

Future

- Boniva
- Bondronat (MBP)
- Tarceva
- R744 (CERA)
- MRA
- Insulin sensitizer
- MabThera in RA

Outlook

Roche

Pharmaceuticals

- 2005 local currency sales growth above the world market
- 2005 operating profit margin[1] broadly in line with that of 2004

Diagnostics

- 2005 local currency sales growth above the world market
- On our way to achieve an operating profit margin[1] of around 23 % in 2006

Group

- Balanced financial income in 2005

barring unforeseen events

[1] before exceptional items