



Investors/Analysts Conference Accounting Workshop

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- 7 interruptions in production
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- 9 litigation;
- 10 loss of key executives or other employees; and
- 11 adverse publicity and news coverage.

Any statements regarding earnings per share growth is not a profit forecast and should not be interpreted to mean that Roche's earnings or earnings per share for this year or any subsequent period will necessarily match or exceed the historical published earnings or earnings per share of Roche.

Agenda



- Equity Compensation Plans
- Earnings Per Share
- Question & Answer Session

Equity Compensation Plans



Agenda

- Operating expenses
- Income taxes
- Impact on equity
- Questions & Answers

Equity Compensation Plans



Operating expenses

- Full disclosure in Note 14 (pages 64-69).
- Impact on FY'05 (pre-tax) results 504m CHF
 - 364m CHF equity-settled plans
 - 140m CHF cash-settled plans
- FY'06 expense (pre-tax) for equity-settled plans
 - Initial estimate 420m CHF (given 8 March '05)
 - Revised estimate over 500m CHF
 - Increase due to increase in Genentech stock price.

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-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

Equity Compensation Plans



Income taxes: the story so far

Genentech equity compensation plans:

	HY 2004 USD m	FY 2004 USD m	HY 2005 USD m	FY 2005 USD m
Operating profit	(35)	(105)	(105)	(245)
Tax benefit	19	29	61	99
Effective tax rate	54%	27%	58%	40%

Equity Compensation Plans



Impact on equity

- Direct to equity impact – 2.6 bn CHF increase in equity
 - 1.5 bn CHF retained earnings
 - 1.1 bn CHF minority interests
- Consists of
 - Cash received from exercises – 1.1 bn CHF
 - Income taxes (balance sheet) – 1.1 bn CHF
 - ECP expense – 0.4 bn CHF

Earnings Per Share



Agenda

- Which EPS to use ?
- Core EPS
- Modelling EPS
- Impact of changes in IFRS
- Questions & Answers

Earnings Per Share



Which EPS to use ? (1)

Diluted EPS

- Best suited for reporting to shareholders on actual results.
 - Includes everything

Core EPS

- Best suited for reporting to analysts and investors on actual results and targets.
 - Focuses on the underlying business
 - Excludes historic irregular items (discontinuing businesses, exceptional items) and items that reduce comparability to peers (intangible asset amortisation)

Earnings Per Share

Which EPS to use? (2)



	Diluted EPS	Core EPS
Earnings	Net income - Minority interest - Dilution ¹ Earnings for diluted EPS	Net income - Minority interest - Discontinued businesses, after tax - Exceptional items, after tax - Intangible asset amortisation, after tax - Minority interest on above - Dilution ¹ Core Net Income
Per Share	# of issued shares and NES - Own equity - Dilution ¹ # shares for EPS	# of issued shares and NES - Own equity - Dilution ¹ # of shares for EPS

¹ Dilution from convertible debt and employee stock options, especially Genentech

Earnings Per Share

Core EPS (1)



Profit from continuing businesses before exceptional items and Core net income in millions of CHF

	Year ended 31 December	
	2005	2004
Profit from continuing businesses	6,742	4,726
Goodwill amortisation	-	572
Major legal cases	356	-
- income taxes	(135)	-
Changes in Group organisation	-	199
- income taxes	-	(33)
Exceptional financial income	-	(872)
- income taxes	-	290
	-	(582)
Profit from continuing businesses before exceptional items	6,963	4,882
Minority interests		
- Profit from continuing businesses	(943)	(422)
- Goodwill amortisation	-	(116)
	(943)	(538)
Net income attributable to Roche shareholders (continuing businesses before exceptional items)	6,020	4,344
Amortisation of intangible assets	1,011	1,000
- income taxes	(359)	(358)
- minority interest	(51)	(78)
	601	564
Core net income	6,621	4,908

Earnings Per Share

Core EPS (2)



EPS (continuing businesses before exceptional items) and Core EPS

Year ended 31 December	EPS (continuing businesses before exceptional items)		Core EPS	
	2005	2004	2005	2004
Net income attributable to Roche shareholders (millions of CHF)	6,020	4,344	6,821	4,908
Elimination of interest expense, net of tax, of convertible debt instruments, where dilutive	43	49	43	49
Increase in minority share of net income, net of tax, assuming all outstanding Genentech and Chugai stock options exercised	(58)	(37)	(63)	(42)
Net income used to calculate diluted earnings per share	6,005	4,356	6,601	4,915
Per share information				
(millions of shares and non-voting equity securities)				
Weighted average number of shares and non-voting equity securities in issue	845	841	845	841
Adjustment for assumed conversion of convertible debt instruments, where dilutive	13	19	13	19
Adjustment for assumed exercise of equity compensation plans, where dilutive	2	-	2	-
Weighted average number of shares and non-voting equity securities in issue used to calculate diluted earnings per share	860	860	860	860
Earnings per share (diluted) (CHF)	6.98	5.07	7.68	5.72

Earnings Per Share

Modelling Core EPS (1)



- 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 (FY'05 63m CHF)
- Roche stock options
 - growing per share dilution (FY'05 2m shares)

Earnings Per Share



Modelling Core EPS (2)

Amortisation of intangible assets

	2005 CHF m	2006 CHF m	2007 CHF m	2008 CHF m
Roche Pharma	417	400	397	250
Genentech	183	159	154	149
Chugai	76	76	76	74
Pharmaceuticals Division	676	635	627	473
Diagnostics Division	335	325	325	325
Total	1,011	960	952	798

*2006-2008 based on estimates in most recent internal business plans

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 '05)
- Impact of IFRS changes assessed at 8 March 2005 workshop
- EPS 2005 will be restated in 2006 for changes in IFRS implemented in 2006 (IAS 19 (revised) – Pensions)