



IFRS Changes 2006 and Impacts on Roche

Briefing for Financial Analysts, 7 June 2006

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IFRS Changes 2006 and Impacts on Roche

Agenda

- 1. Introduction**
- 2. Pensions - overview**
- 3. Pensions - actuarial gains and losses**
- 4. Pensions – income statement presentation**
- 5. Other changes**
- 6. Impact on results**
- 7. Questions and answers**

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2. Pensions – overview

Pensions – overview

Summary

Application of IAS 19

- IAS 19 covers “Employee Benefits” as a whole, but the most significant area relates to the accounting and reporting of Defined Benefit Post-employment plans.
- Post-employment plans are mainly pensions, but also include post-employment medical and similar plans, mostly in the US.
- Roche has applied previous versions of IAS 19 through various revisions since 1990.

IAS 19 (revised)

- Roche will apply the latest revision of IAS 19 in its 2006 reporting, and this will include a retrospective restatement of the 2005 results.
- The revised standard allows actuarial gains and losses to be recorded directly to equity.
- The revised standard requires a lot of additional disclosure in the annual financials.

Application at Roche

- Implementation is an opportunity to review our accounting and reporting and to align this with our internal management structures and our healthcare peers.

3. Pensions – actuarial gains and losses

Pensions – actuarial gains and losses

Actuarial assumptions

What are actuarial assumptions ?

- The pension expense is fixed at the beginning of the year, based on the current status of the plans and various actuarial assumptions.
- The principal actuarial assumptions relate to:
 - Discount rate: varies according to long-term interest rates.
 - Expected return on investments: varies according to market conditions and depends upon the mix of investments (equities, bonds, property, etc.).
 - Mortality: varies according to demographic trends.
- Assumptions are set with reference to current and historic trends, but are long-term estimates and do not change with every short-term fluctuation.



Pensions – actuarial gains and losses

Actuarial gains and losses

How do actuarial gains and losses arise ?

- At the end of the year, the actuary updates the calculations.
- Differences always arise between the results expected at the start of the year and the actual situation at the end of the year.

Discount rate

- Long-term interest rates can change.

Expected return on investments

- Actual return on investment will be different from long-term expected return.
- Market views on long-term returns can change.
- The mix of investments (equities, bonds, property, etc.) can change.

Mortality

- The demographic mix of plan participants can change.
- Mortality expectations can change, based on new official mortality tables.

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Pensions – actuarial gains and losses

How are actuarial gains/losses reported ?

Previous version of IAS 19 – two options

- Record immediately against income.
- Defer off-balance sheet, and record amortisation against income once the accumulated gains/losses exceeded a threshold.

Revised version of IAS 19 – new third option

- Record immediately against equity.

Why is Roche choosing the third option ?

- More useful for users of the financial statements. The balance sheet position will more accurately reflect the funding status of the various plans, and hence the Group's overall financial position.
- Consistent with the view of third party users such as ratings agencies.
- Consistent with our healthcare peers that use IFRS.

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4. Pensions - income statement presentation

Pensions – income statement presentation

Summary

How is the income statement charge calculated and reported ?

- The expense for each defined benefit plan is calculated annually at the start of each year by the actuaries.
- IAS 19 specifies how the expense should be calculated, but does not specify which income statement heading should be used. Previously Roche has included the whole amount in the operating results.

Changes in 2006

- The interest cost will be included as part of financing costs.
- The expected return on plan assets will be included as part of financial income.

Reason for the changes

- The presentation of the results reflects Roche's internal management structure.
 - Divisional operating results include the cost of current pensions to current employees.
 - Funding of pension plans and pension plan asset management are overseen at a corporate level, and any income or costs are not included in the divisional results.

Pensions – income statement presentation



Pension expenses – 2005

	2005 CHF m	Total Group as published
Current service cost	307	
Interest cost	602	
Expected return on plan assets	(635)	
Actuarial gains/losses	117	
Past service cost	(15)	
Curtailments	(15)	
Settlements	(127)	
Limit on plan assets	79	
	532	

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Pensions – income statement presentation



Pension expenses – major elements

Current service cost

- The present value of the pension benefits that are awarded to current employees for the current year.

Interest cost

- The interest charge from the unwinding of the discount on the calculated pension obligation.

Expected return on plan assets

- For funded plans only, the expected return on the pension assets in the current year.

Actuarial gain/losses recognised

- The amortisation of off-balance sheet actuarial gains/losses from prior years that exceed a 10% corridor. In 2006 these will be recorded directly to equity.

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Pensions – income statement presentation



Restatement of 2005 results

	2005 CHF m	Total Group as published
Current service cost	307	Operating
Interest cost	602	→ Financing Cost
Expected return on plan assets	(635)	→ Financial Income
Actuarial gains/losses	117	→ Equity
Past service cost	(15)	Operating
Curtailments	(15)	Operating
Settlements	(127)	Operating: Corporate
Limit on plan assets	79	→ Equity
	532	

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Pensions – income statement presentation



Rationale of changes

Current service cost

- Remains a divisional cost. The expense is based on the number of current employees and the current value of pension they receive.

Interest cost

- Transferred to financing cost. The charge depends mainly on external interest rates. Pension liabilities are regarded as a form of debt by many external users. Pension plan funding is overseen at a corporate level.

Expected return on plan assets

- Transferred to financial income. The income depends mainly on the expected external market returns on investments. Pension plan asset management is overseen at a corporate level.

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5. Other changes

Other changes

Summary

IAS 39 amendment: The Fair Value Option

- Applied in second half of 2005 and already included in the published Full Year 2005 results (see Roche 2005 financial statements page 39).
- Was not included in the originally published Half Year 2005 results. Is now included retrospectively in the restated Half Year 2005 results.
- Increase of CHF 19 m to Half Year 2005 net income. No change in Full Year results.

Diagnostic instrument leasing costs

- Support costs for leasing of diagnostics instruments now considered as part of 'cost of sales' instead of 'marketing and distribution'.
- Reclassification of CHF 76 m (HY: CHF 37 m) within Diagnostics operating results.
- Total Diagnostics operating profit is unchanged.

6. Impact on Results

Impact on results

Summary (1)

Guidance

- Our guidance does not change.
- Our guidance on Sales and Core EPS is based on growth for 2006 vs. 2005. We still expect that the growth of Core EPS 2006 (new basis) vs. Core EPS 2005 (restated to new basis) will be as previously communicated. The IFRS changes do not affect sales.

Operating results

- Overall slightly positive on Group level (+ 0.5 percentage points to operating margin).
- The amortisation of actuarial gains/losses (previously a net expense) and the expected return on plan assets and financing cost (previously a net income) are removed from the operating results.
- Less volatility going forward in operating results.
- Slightly positive for Pharma Division (+ 0.2 percentage point to operating margin), more positive to Diagnostics result (+1.0 percentage point to operating margin).
- Within Pharma Division, no impact on Genentech and Chugai.



Impact on results

Summary (2)

Financial results

- Slightly positive on financial results, as the expected return on plan assets and financing cost currently give a net income (CHF +32 m in 2005 restated).
- Tax rate is stable (+ 0.1 percentage point).
- Slightly positive on net income (CHF +136 m).
- Slightly positive to EPS (CHF +0.16, Diluted and Core).

Balance sheet

- Pension assets and liabilities more accurately reflect the current funding situation. No off-balance sheet assets/liabilities for unrecognised actuarial gains/losses.
- More volatility in equity, as in future actuarial gains/losses are reported directly to equity.
- Transition impact on 31 December 2005 balance sheet of CHF -1.6 bn.

Cash flow statement

- No impact.

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Appendix 1 Restated Half Year 2005

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Roche Group

H1 2005 restated



CHF m

	Pharma	Diagnostics	Corporate	Group
Sales	12,652	3,970	-	16,622
Royalties and other operating income	542	168	-	710
Cost of sales	-2,831	-1,500	-	-4,331
Marketing and distribution	-3,354	-998	-	-4,352
Research and development	-2,207	-336	-	-2,543
General and administration	-825	-192	-137	-1,154
Amortisation and impairment of intangible assets	-332	-166	-	-498
Operating profit before exceptional items	3,645	946	-137	4,454
Major legal cases	-	-146	-	-146
Operating profit	3,645	800	-137	4,308
Associated companies				-
Financial income				554
Financing costs				-469
Profit before taxes				4,393
Income taxes				-1,066
Profit from continuing businesses				3,327
Profit from discontinued businesses				1
Net income				3,328
Attributable to				
Roche shareholders				2,884
Minority interests				444

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Roche Group by Division

H1 2005 restated



CHF m

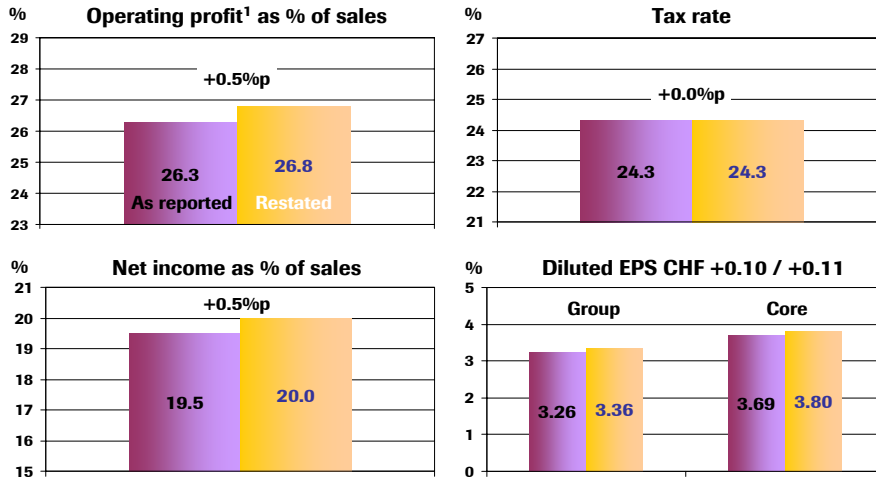
	Pharma	Diagnostics	Corporate	Group
Sales	12,652	3,970	-	16,622
Operating profit before exceptional items	3,645	946	-137	4,454
<i>% of sales</i>	28.8 %	23.8 %	-	26.8 %
EBITDA	4,372	1,353	-133	5,592
<i>% of sales</i>	34.6 %	34.1 %	-	33.6 %

	Pharma	Roche Pharma	Genentech	Chugai
Sales	12,652	7,978	2,867	1,807
Operating profit before exceptional items	3,645	2,355	838	452
<i>% of sales</i>	28.8 %	29.5 %	29.2 %	25.0 %
EBITDA	4,372	2,795	1,051	526
<i>% of sales</i>	34.6 %	35.0 %	36.7 %	29.1 %

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Roche Group H1 2005

Impact of changes on margins and EPS

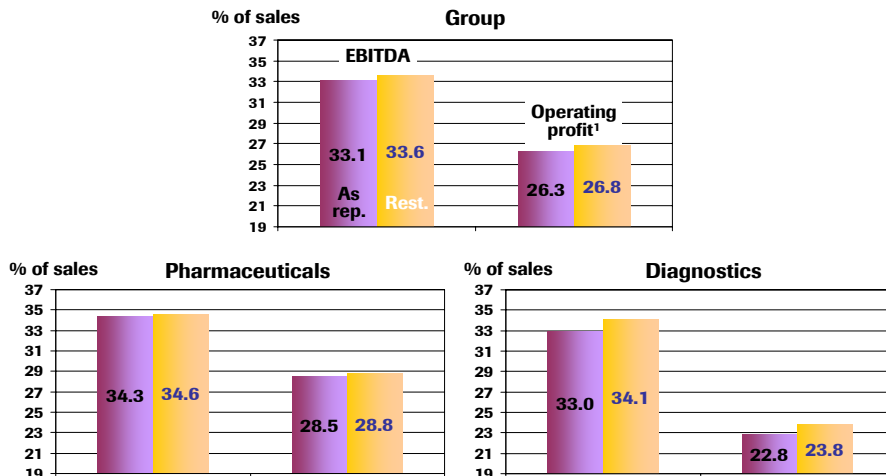


¹ before exceptional items

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Roche Group and Divisions H1 2005

Impact of changes on operating margins

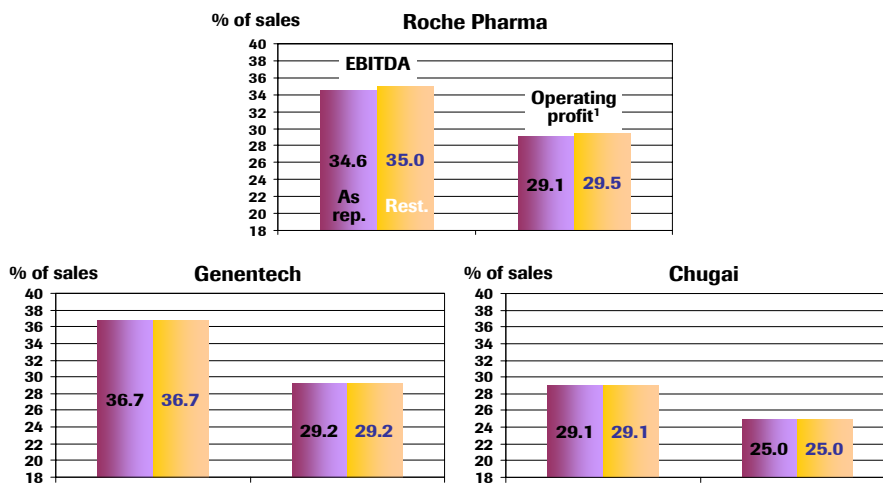


¹ before exceptional items

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Pharmaceuticals Sub-Divisions H1 2005

Impact of changes on operating margins



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Roche Group

H1 2005 reconciliation



CHF m	As published	IAS 19 (rev)	IAS 39 FV option	Presentation Pensions	Reclassifications	Restated
Sales	16,622	-	-	-	-	16,622
Royalties and other operating income	710	-	-	-	-	710
Cost of sales	-4,348	44	-	10	-37	-4,331
Marketing and distribution	-4,409	13	-	7	37	-4,352
Research and development	-2,559	24	-	-8	-	-2,543
General and administration	-1,145	16	-	-25	-	-1,154
Amortisation and impairment of intangible assets	-498	-	-	-	-	-498
Operating profit before exceptional items	4,373	97	-	-16	-	4,454
Major legal cases	-146	-	-	-	-	-146
Operating profit	4,227	97	-	-16	-	4,308
Associated companies	-	-	-	-	-	-
Financial income	241	-	-	313	-	554
Financing costs	-187	-	15	-297	-	-469
Profit before taxes	4,281	97	15	-	-	4,393
Income taxes	-1,040	-30	4	-	-	-1,066
Profit from continuing businesses	3,241	67	19	-	-	3,327
Profit from discontinued businesses	1	-	-	-	-	1
Net income	3,242	67	19	-	-	3,328
Attributable to						
Roche shareholders	2,798	67	19	-	-	2,884
Minority interests	444	-	-	-	-	444

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Pharmaceuticals

H1 2005 reconciliation



CHF m

	As published	IAS 19 (rev)	Presentation Pensions	Reclassifications	Restated
Sales	12,652	-	-	-	12,652
Royalties and other operating income	542	-	-	-	542
Cost of sales	-2,858	40	-13	-	-2,831
Marketing and distribution	-3,366	10	2	-	-3,354
Research and development	-2,215	21	-13	-	-2,207
General and administration	-815	10	-20	-	-825
Amortisation/impairment of intang. assets	-332	-	-	-	-332
Operating profit before exceptional items	3,608	81	-44	-	3,645
Major legal cases	-	-	-	-	-
Operating profit	3,608	81	-44	-	3,645

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Diagnostics

H1 2005 reconciliation



CHF m

	As published	IAS 19 (rev)	Presentation Pensions	Reclassifications	Restated
Sales	3,970	-	-	-	3,970
Royalties and other operating income	168	-	-	-	168
Cost of sales	-1,490	4	23	-37	-1,500
Marketing and distribution	-1,043	3	5	37	-998
Research and development	-344	3	5	-	-336
General and administration	-191	1	-2	-	-192
Amortisation/impairment of intang. assets	-166	-	-	-	-166
Operating profit before exceptional items	904	11	31	-	946
Major legal cases	-146	-	-	-	-146
Operating profit	758	11	31	-	800

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Corporate

H1 2005 reconciliation



CHF m

	As published	IAS 19 (rev)	Presentation Pensions	Reclassifications	Restated
Sales	-	-	-	-	-
Royalties and other operating income	-	-	-	-	-
Cost of sales	-	-	-	-	-
Marketing and distribution	-	-	-	-	-
Research and development	-	-	-	-	-
General and administration	-139	5	-3	-	-137
Amortisation/impairment of intang. assets	-	-	-	-	-
Operating profit before exceptional items	-139	5	-3	-	-137
Major legal cases	-	-	-	-	-
Operating profit	-139	5	-3	-	-137

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Appendix 2

Restated Full Year 2005

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Roche Group 2005 restated



CHF m

	Pharma	Diagnostics	Corporate	Group
Sales	27,268	8,243	-	35,511
Royalties and other operating income	1,176	271	-	1,447
Cost of sales	-6,016	-3,254	-	-9,270
Marketing and distribution	-7,458	-2,049	-	-9,507
Research and development	-4,970	-702	-	-5,672
General and administration	-1,785	-403	-121	-2,309
Amortisation and impairment of intangible assets	-676	-335	-	-1,011
Operating profit before exceptional items	7,539	1,771	-121	9,189
Major legal cases	-210	-146	-	-356
Operating profit	7,329	1,625	-121	8,833
Associated companies				1
Financial income				1,313
Financing costs				-985
Profit before taxes				9,162
Income taxes				-2,284
Profit from continuing businesses				6,878
Profit from discontinued businesses				-12
Net income				6,866
Attributable to				
Roche shareholders				5,923
Minority interests				943

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Roche Group by Division 2005 restated



CHF m

	Pharma	Diagnostics	Corporate	Group
Sales	27,268	8,243	-	35,511
Operating profit before exceptional items	7,539	1,771	-121	9,189
<i>% of sales</i>	27.6 %	21.5 %	-	25.9 %
EBITDA	9,073	2,611	-116	11,568
<i>% of sales</i>	33.3 %	31.7 %	-	32.6 %

	Pharma	Roche Pharma	Genentech	Chugai
Sales	27,268	16,955	6,614	3,699
Operating profit before exceptional items	7,539	4,618	2,124	797
<i>% of sales</i>	27.6 %	27.2 %	32.1 %	21.5 %
EBITDA	9,073	5,577	2,522	974
<i>% of sales</i>	33.3 %	32.9 %	38.1 %	26.3 %

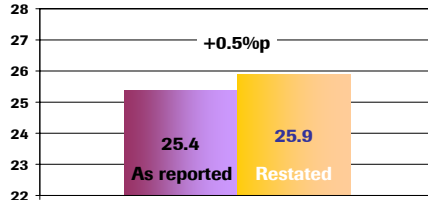
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Roche Group 2005

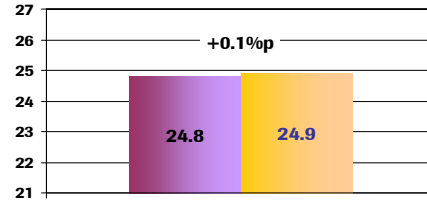
Impact of changes on margins and EPS



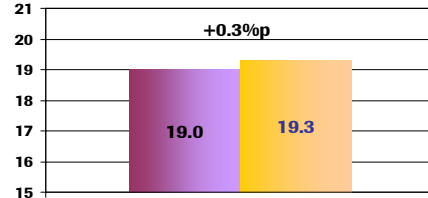
Operating profit¹ as % of sales



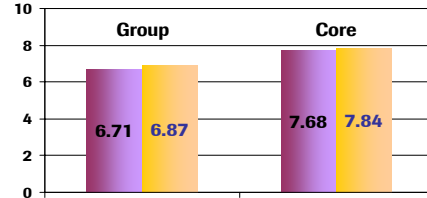
Tax rate



Net income as % of sales



Diluted EPS CHF +0.16



¹ before exceptional items

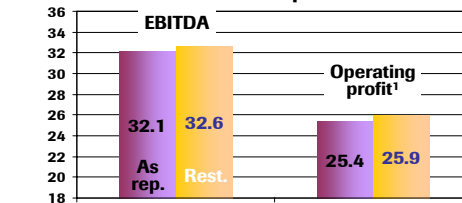
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Roche Group and Divisions 2005

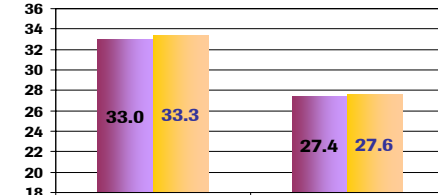
Impact of changes on operating margins



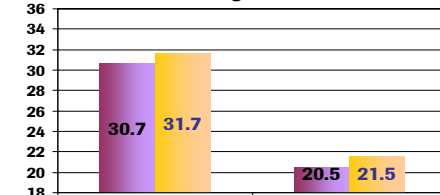
Group



Pharmaceuticals



Diagnostics

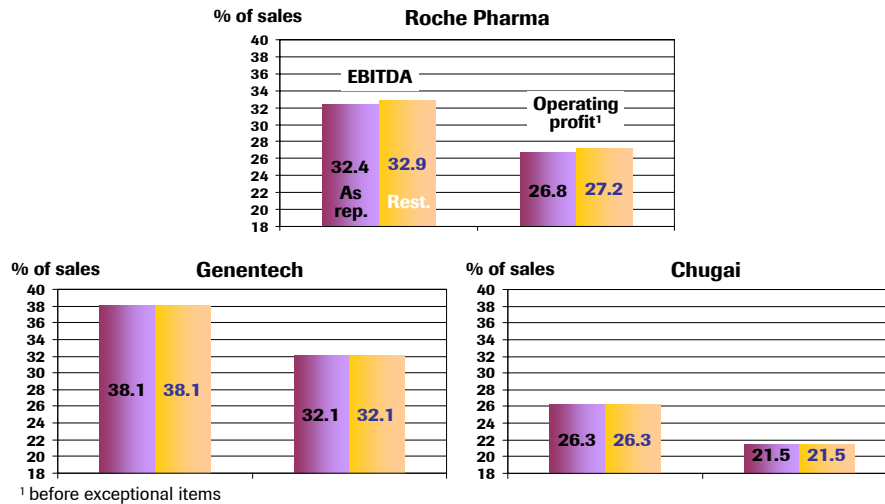


¹ before exceptional items

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Pharmaceuticals Sub-Divisions 2005

Impact of changes on operating margins



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Roche Group

2005 reconciliation



CHF m

	As published	IAS 19 (rev)	Presentation Pensions	Reclassifications	Restated
Sales	35,511	-	-	-	35,511
Royalties and other operating income	1,447	-	-	-	1,447
Cost of sales	-9,304	88	22	-76	-9,270
Marketing and distribution	-9,625	26	16	76	-9,507
Research and development	-5,705	51	-18	-	-5,672
General and administration	-2,288	31	-52	-	-2,309
Amortisation and impairment of intangible assets	-1,011	-	-	-	-1,011
Operating profit before exceptional items	9,025	196	-32	-	9,189
Major legal cases	-356	-	-	-	-356
Operating profit	8,669	196	-32	-	8,833
Associated companies	1	-	-	-	1
Financial income	678	-	635	-	1,313
Financing costs	-382	-	-603	-	-985
Profit before taxes	8,966	196	-	-	9,162
Income taxes	-2,224	-60	-	-	-2,284
Profit from continuing businesses	6,742	136	-	-	6,878
Profit from discontinued businesses	-12	-	-	-	-12
Net income	6,730	136	-	-	6,866
Attributable to					
Roche shareholders	5,787	136	-	-	5,923
Minority interests	943	-	-	-	943

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Pharmaceuticals 2005 reconciliation



CHF m

	As published	IAS 19 (rev)	Presentation Pensions	Reclassifications	Restated
Sales	27,268	-	-	-	27,268
Royalties and other operating income	1,176	-	-	-	1,176
Cost of sales	-6,071	79	-24	-	-6,016
Marketing and distribution	-7,484	22	4	-	-7,458
Research and development	-4,986	44	-28	-	-4,970
General and administration	-1,764	19	-40	-	-1,785
Amortisation/impairment of intang. assets	-676	-	-	-	-676
Operating profit before exceptional items	7,463	164	-88	-	7,539
Major legal cases	-210	-	-	-	-210
Operating profit	7,253	164	-88	-	7,329

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Diagnostics 2005 reconciliation



CHF m

	As published	IAS 19 (rev)	Presentation Pensions	Reclassifications	Restated
Sales	8,243	-	-	-	8,243
Royalties and other operating income	271	-	-	-	271
Cost of sales	-3,233	9	46	-76	-3,254
Marketing and distribution	-2,141	4	12	76	-2,049
Research and development	-719	7	10	-	-702
General and administration	-399	1	-5	-	-403
Amortisation/impairment of intang. assets	-335	-	-	-	-335
Operating profit before exceptional items	1,687	21	63	-	1,771
Major legal cases	-146	-	-	-	-146
Operating profit	1,541	21	63	-	1,625

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Corporate 2005 reconciliation



CHF m

	As published	IAS 19 (rev)	Presentation Pensions	Reclassi- fications	Restated
Sales	-	-	-	-	-
Royalties and other operating income	-	-	-	-	-
Cost of sales	-	-	-	-	-
Marketing and distribution	-	-	-	-	-
Research and development	-	-	-	-	-
General and administration	-125	11	-7	-	-121
Amortisation/impairment of intang. assets	-	-	-	-	-
Operating profit before exceptional items	-125	11	-7	-	-121
Major legal cases	-	-	-	-	-
Operating profit	-125	11	-7	-	-121

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