

A long term approach to innovation

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- 2 legislative and regulatory developments and economic conditions;
- 3 delay or inability in obtaining regulatory approvals or bringing products to market;
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- 6 increased government pricing pressures;
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- 10 loss of key executives or other employees; and
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Pharma investment in the longer term

Current sentiment in Pharma & Healthcare

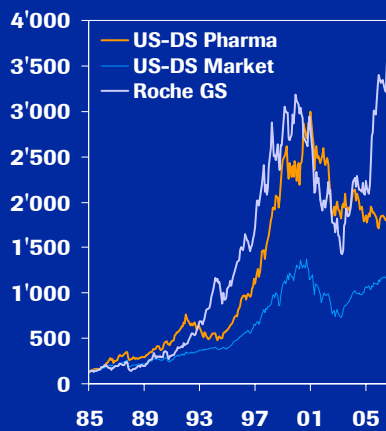
The Roche value proposition

Summary

Pharma sector

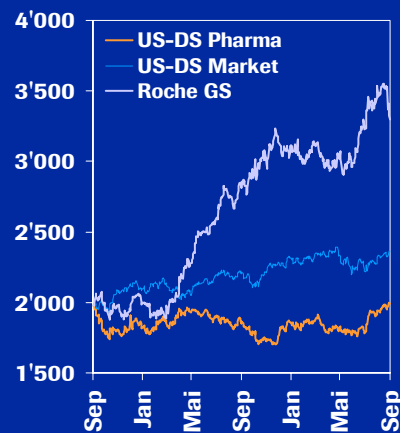
From an 'outperformer' to an 'underperformer'

US Pharma Sector vs. Market:
Past 20 years ...



Source: Datastream

... and over the past two years





Pharma is an attractive business

Offering around two times GDP growth

Range of 10 year EPS growth			Range of 10 year EPS growth		
	Min	Max		Min	Max
Software & Services	7.0	12.0	Automobiles & Components	0.0	3.0
Household & Personal Products	7.0	11.0	Transportation	-2.0	4.0
Pharma & Biotechnology	8.0	11.0	Materials	1.0	5.0
Commercial Services	6.0	10.0	Real Estate	2.0	5.0
Diversified Financials	6.0	10.0	Retailing	1.0	5.0
Health Care Equip. & Services	7.0	10.0	Capital Goods	2.0	6.0
Media	5.0	10.0	Hotels Restaurants & Leisure	3.0	6.0
Semiconductors	4.0	9.0	Utilities	3.0	6.0
Technology Hardware & Equip.	4.0	9.0	Energy	4.0	7.0
Consumer Durables	5.0	8.0	Telecommunication Services	3.0	7.0
Food & Staples Retailing	5.0	8.0	Insurance	3.0	8.0
Food Beverage & Tobacco	4.0	8.0			
Banks	3.0	8.0			

Source: Morgan Stanley estimates



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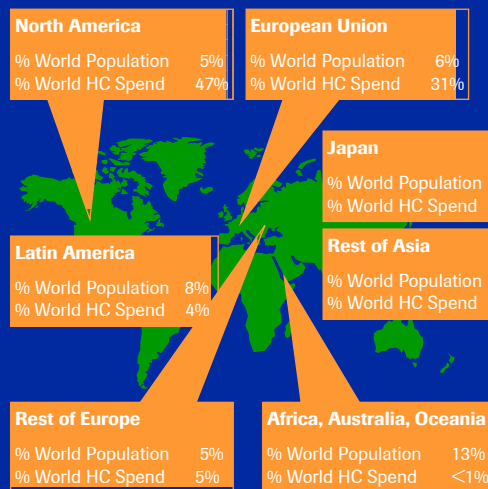
Summary

Three trends influencing the sentiment in the Pharmaceutical & Healthcare sector

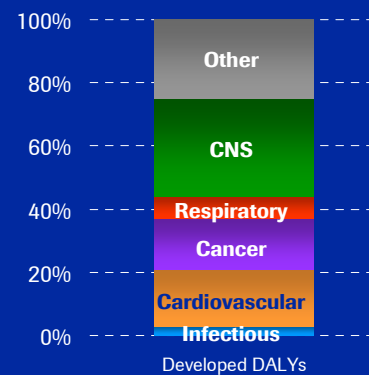


Market and disease demographics

North America, Europe and Japan over 80% of HC spend



Developed world medical need



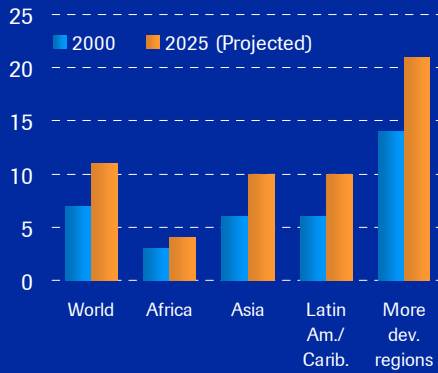
Source: WHO - Priority Medicines for Europe & World Nov 2004; World Bank;
 [1] DALY = Disability-adjusted life-years (healthy life lost due to illness/premature death)



Aging of the population

By 2025, one-tenth of the world's population over age 65

Population ages 65 and older By world region in %



Age category	2000	2050	Growth
All	6 bn	9.3 bn	1.5 x
> 60	606 m	1.9 bn	3 x
80-89	60 m	311 m	5 x
90-99	8 m	63 m	8 x
>100	167'000	3.3 m	20 x
Median age	26.4 y	36.8 y	

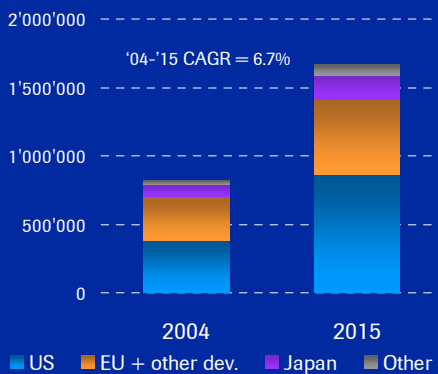
By 2025
 world's population: **11 %** over age 65
 more developed regions: **21 %** over age 65

Source: United Nations, World Population Prospects: The 2002 Revision (medium scenario), 2003.
 Business Insights, Reuters 2004

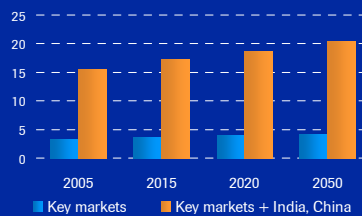


Growing elderly healthcare market

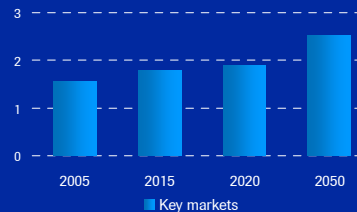
HC spend by patients aged 65+ (US\$ bn)



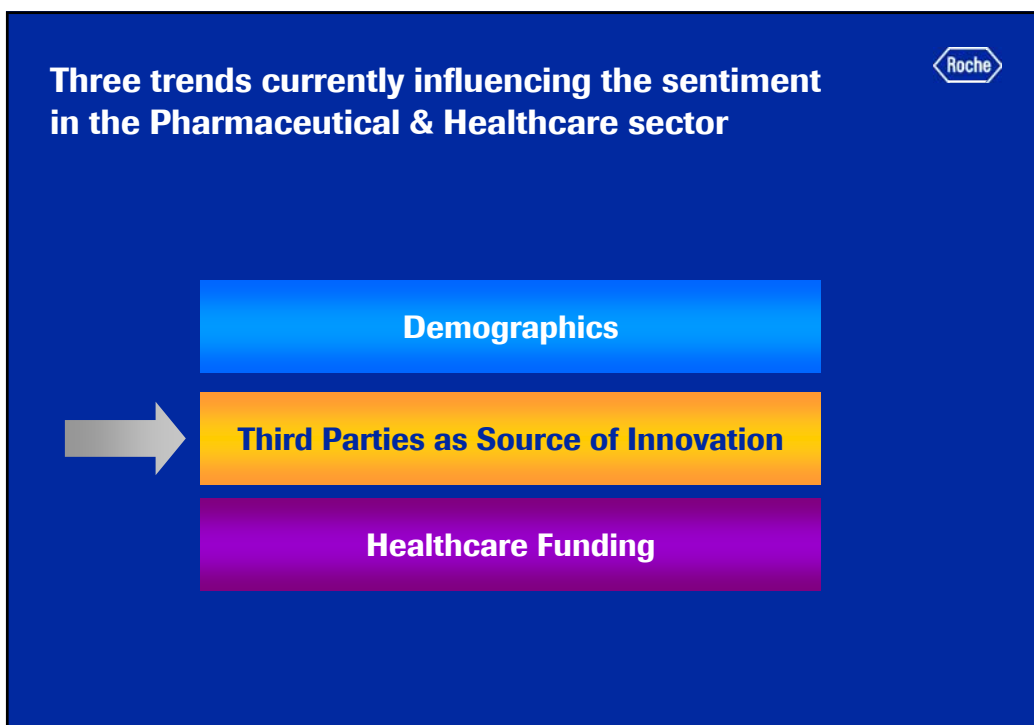
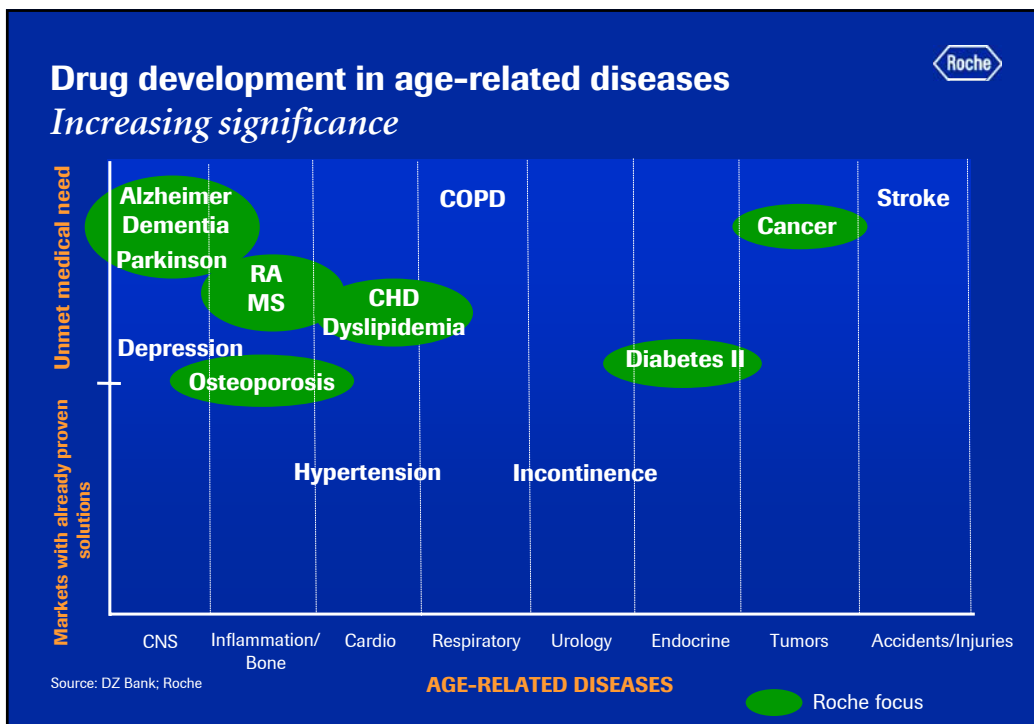
Rheumatoid arthritis (Prevalence in m)



Cancer (Incidence in m)



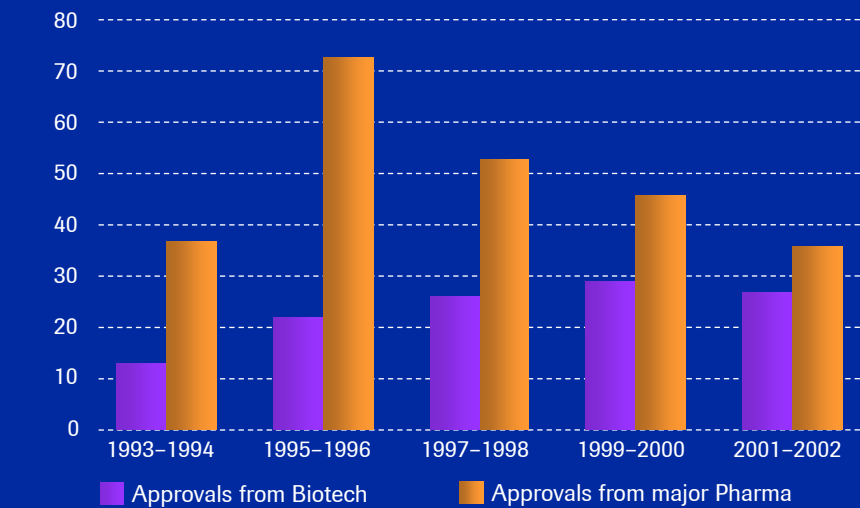
Sources: US Census Bureau, World Bank, Deutsche Bank Nov '04
 Key markets: 5 major EU countries + US; Source: Decision Resources 2005, Timely Data Resources 2005, UN World Population Prospects 2004





Biotech as new source of innovation

A growing source of approved products



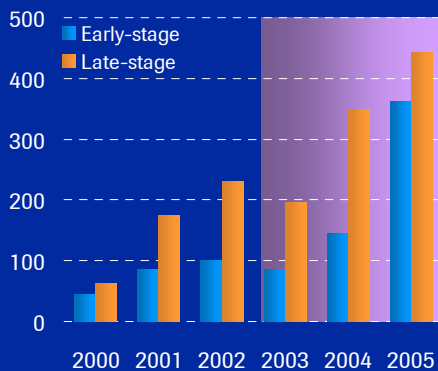
FDA data base



Innovation network

Competition for external innovation is increasing

Average cost of in-licensing (Rx) \$ millions



Observations

- Average cost of in-licensing deals has risen at a 40 % (CAGR) since 2000
- By 2010, 40 % of pharma peers' revenues expected to come from external sources of innovation

Source: Wood McKenzie licensingview
Early = Preclinical/ Phase I; Late = Phase II and III

Three trends currently influencing the sentiment in the Pharmaceutical & Healthcare sector

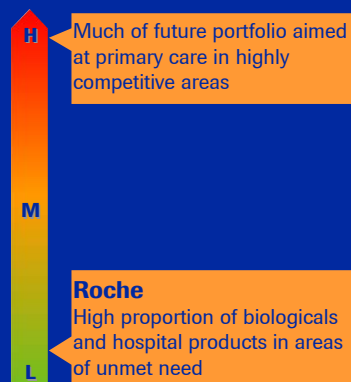


Higher premium for innovation for medically differentiated products



Low vulnerability to pricing and funding pressures

Vulnerability of portfolio to price pressure¹



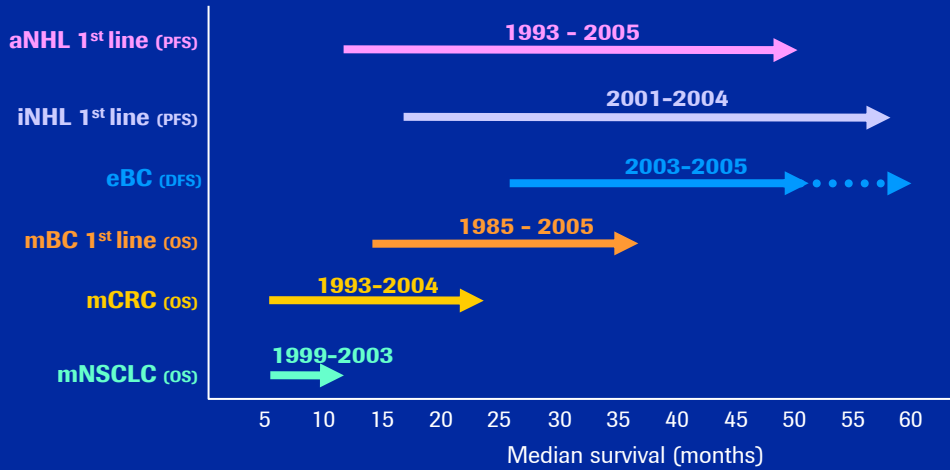
Observations

- Focus on specialty care can make less vulnerable to increasing pricing pressures
 - price controls
 - higher patient co-payments
- The high proportion of biopharmaceuticals can make less vulnerable to competition from generic products

[1] Source: 'Pharmaceutical Pricing', ING Feb 2005; Selected findings displayed from analysis of 11 players (>100 drugs)

Cancer treatment outcomes

Substantial treatment progress in recent years

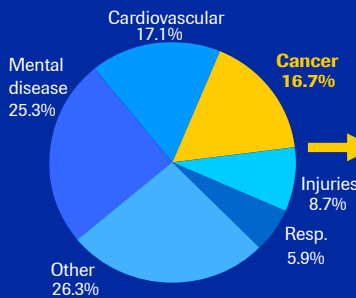


Oncology is dramatically under funded

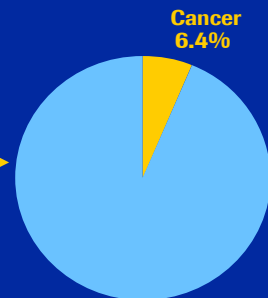
Compared to other disease areas



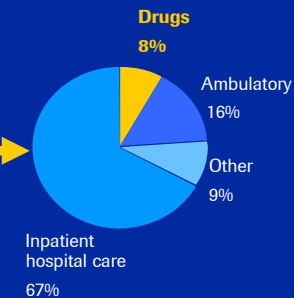
Total disease burden in DALYs



Total healthcare costs



Costs break down in Oncology (example: Germany)



Source: A pan-European comparison regarding patient access to cancer drugs, Karolinska Institute
DALY: Disability-Adjusted Life Years, figures from 2002/3; commonly used measure of the burden of disease



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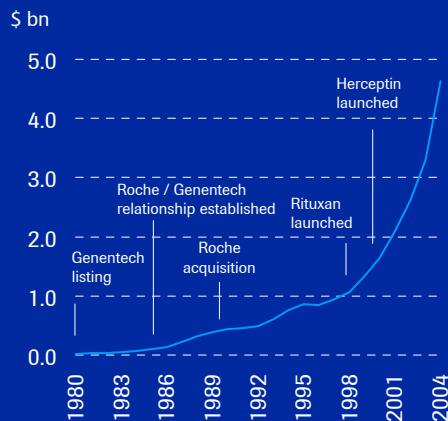
The Roche value proposition

Summary

Roche: Long term view via emerging technologies *Monoclonal Antibodies*



Genentech Revenue 1980-2004



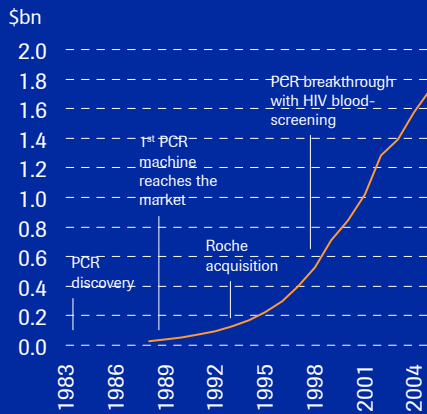
Sources: DataStream, Factiva, MA Analysis; [1] Monoclonal Antibodies

- Roche acquired Genentech in 1990 at the end of a 'Towards R&D Portfolio' stage
 - MAB¹ patent approvals had doubled in 1989
 - significant uncertainty remained over quality and quantity of Genentech's future pipeline
- 'Towards Commercialization' (1990-97)
 - build-up to the launch of Genentech's first humanized MAB, Rituxan
 - growing commercial certainty
- 'Full Commercialization' (since 1997)

Roche: Long term view via emerging technologies *Polymerase Chain Reaction (PCR)*



PCR Market Revenues 1988-2009



Sources: BCC, Morgan Stanley, MA Analysis

- 'Towards commercialization'
 - Roche Dx acquired patents to PCR from Cetus in 1991
 - 3 years after first PCR equipment came to market, but before commercial viability of the technology was certain
- 'Full Commercialization' (1991-99)
 - PCR revenues accelerated to a c.40 % CAGR
- Roche developments in Real-Time PCR should help to maintain leadership

In-licensing: What is Roche looking for? *Projects that pass three tests*



Strategic fit

Is it an area in which we have expertise in research, development or commercialization? Does it complement our existing portfolio?



Scientific & patient value

Will the science result in an important, new medicine?



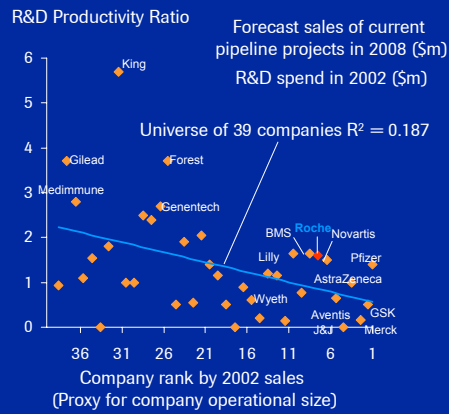
Business case

Will this bring value to both companies?

Accelerated consolidation

Size is not all

Size vs. R&D productivity



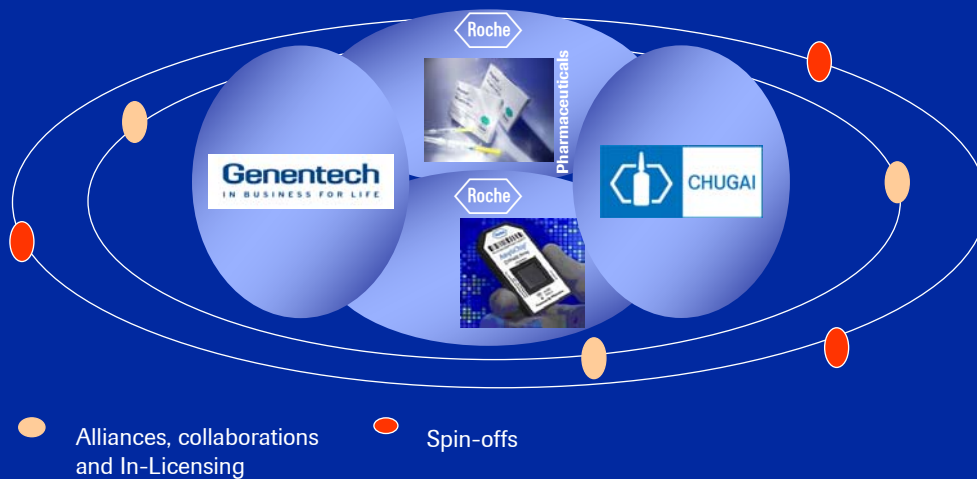
Source: Datamonitor, 2004 (Addressing Pharma's R&D Productivity Crisis)

Observations

- The relationship between company operational size and R&D productivity indicates that there are no significant economies of scale in pharmaceutical R&D
- This is despite the theoretical potential for greater efficiency or more successful product development

There is no indication of a positive relationship between scale and R&D productivity

The unique Roche innovation cosmos





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Focus on differentiated medicines pays off

A young and growing portfolio ...



- CHF 1 billion or more
- CHF 2 billion or more
- CHF 4 billion or more



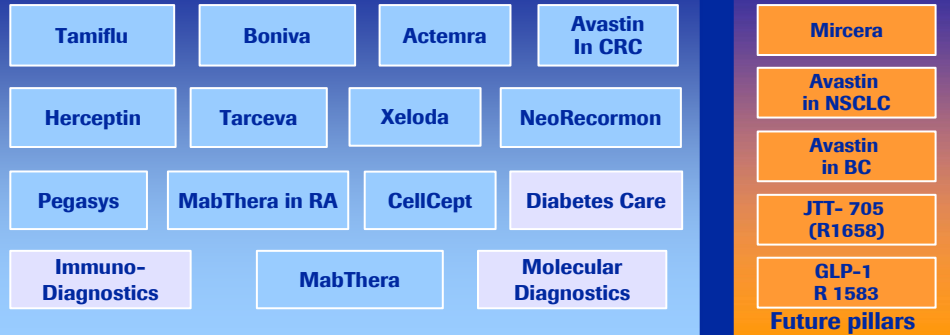
Value drivers	6	10
Sales (CHF bn)	10	22



Roche: unique geographic risk diversification

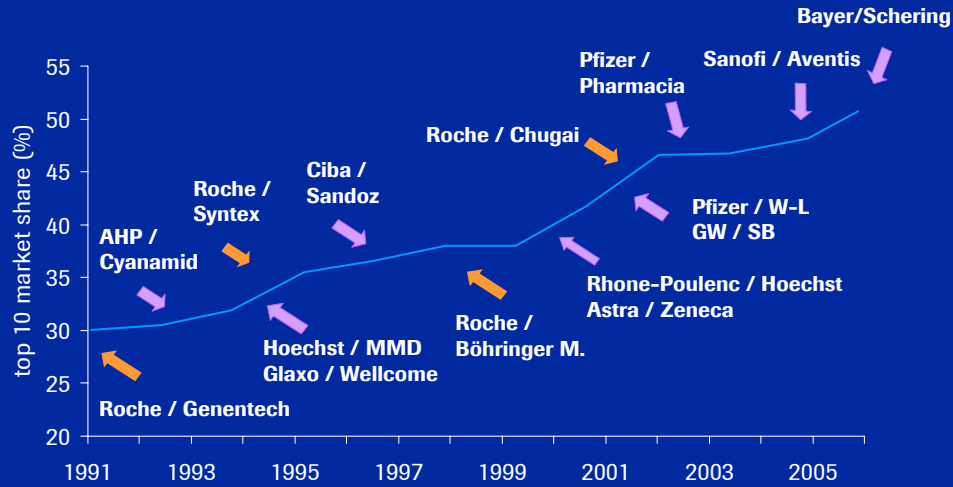


Roche: unique “pillars of value” risk diversification



Consolidation in the Pharma industry ongoing

Top ten companies now above 50 %



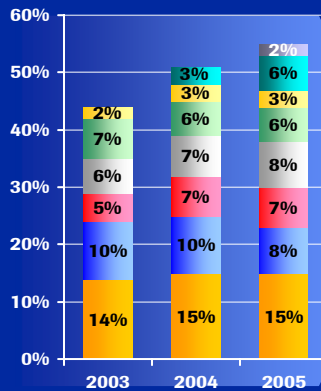
Source: Wood Mackenzie

Nine key brands providing strong organic growth

Representing 55 % of portfolio



% of pharmaceutical sales



CHF m

