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**Investors/Analysts Conference**  
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***Ian Bishop***



This presentation contains certain forward-looking statements. These forward-looking statements may be identified by words such as ‘believes’, ‘expects’, ‘anticipates’, ‘projects’, ‘intends’, ‘should’, ‘seeks’, ‘estimates’, ‘future’ or similar expressions or by discussion of, among other things, strategy, goals, plans or intentions. Various factors may cause actual results to differ materially in the future from those reflected in forward-looking statements contained in this presentation, among others:

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- 3 delay or inability in obtaining regulatory approvals or bringing products to market;
- 4 fluctuations in currency exchange rates and general financial market conditions;
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- 6 increased government pricing pressures;
- 7 interruptions in production
- 8 loss of or inability to obtain adequate protection for intellectual property rights;
- 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.

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# **Changes in the Finance Report**

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**Foreign exchange**

**Core EPS**

**Appendix 1: Genentech transaction**

**Appendix 2: Restructuring and integration**

# Changes in IFRS

## *No significant changes in 2009 Roche financials*

### **Main changes that apply in 2009 have been implemented in 2007-2008**

- IFRS 8 'Operating Segments'.
- IAS 23 (revised) 'Borrowing Costs'.
- IFRS 3 (revised) 'Business Combinations'.
- IAS 27 (revised) 'Consolidated Financial Statements'.

### **IAS 1 (revised) 'Presentation of Financial Statements'**

- Changes to format of Statement of Other Comprehensive Income (formerly Statement of Recognised Income and Expense).
- Expansion to Statement of Equity Movements.
- Additional disclosures in annual financials on pre-tax and tax impact of items of other comprehensive income booked directly to equity.

# Other disclosure changes

## *Further enhanced disclosures in key areas*

### **Genentech transaction – Note 3**

- Details of accounting for the transaction.

### **Changes in Group organisation – Note 8**

- Details of restructuring and integration costs.
- Includes tax effects, and expected total costs until completion.

### **Debt – Note 27**

- Expanded disclosure on the debt outstanding.
- Movements in debt during the year.
- Full details of new issues of bonds and notes.
- Includes effective interest rates, hedging arrangements and cash flows.
- Details of Commercial Paper programmes.

# Changes in the Finance Report

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## Foreign exchange

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## Core EPS

## Appendix 1: Genentech transaction

## Appendix 2: Restructuring and integration

# Foreign exchange

## *Actual forex rates for 2009 and currency sensitivities*

### Exchange rates against the Swiss franc

	31 December 2009	Average 2009	31 December 2008	Average 2008
1 USD	1.04	1.09	1.06	1.08
1 EUR	1.49	1.51	1.49	1.58
100 JPY	1.12	1.16	1.17	1.05

### Currency sensitivities

Impact of 1% rise in average exchange rate versus the Swiss franc	Sales (mCHF)	Operating profit before exceptional items (mCHF)
US dollar	+175	+42
Euro	+132	+62
Japanese yen	+53	+21
All other currencies	+109	+66

# Foreign exchange

## *Impacts on the 2009 operating results*

### **US dollar – stable (average 2009 vs average 2008)**

- No significant forex impact.

### **Euro and other currencies – decreased against the Swiss franc**

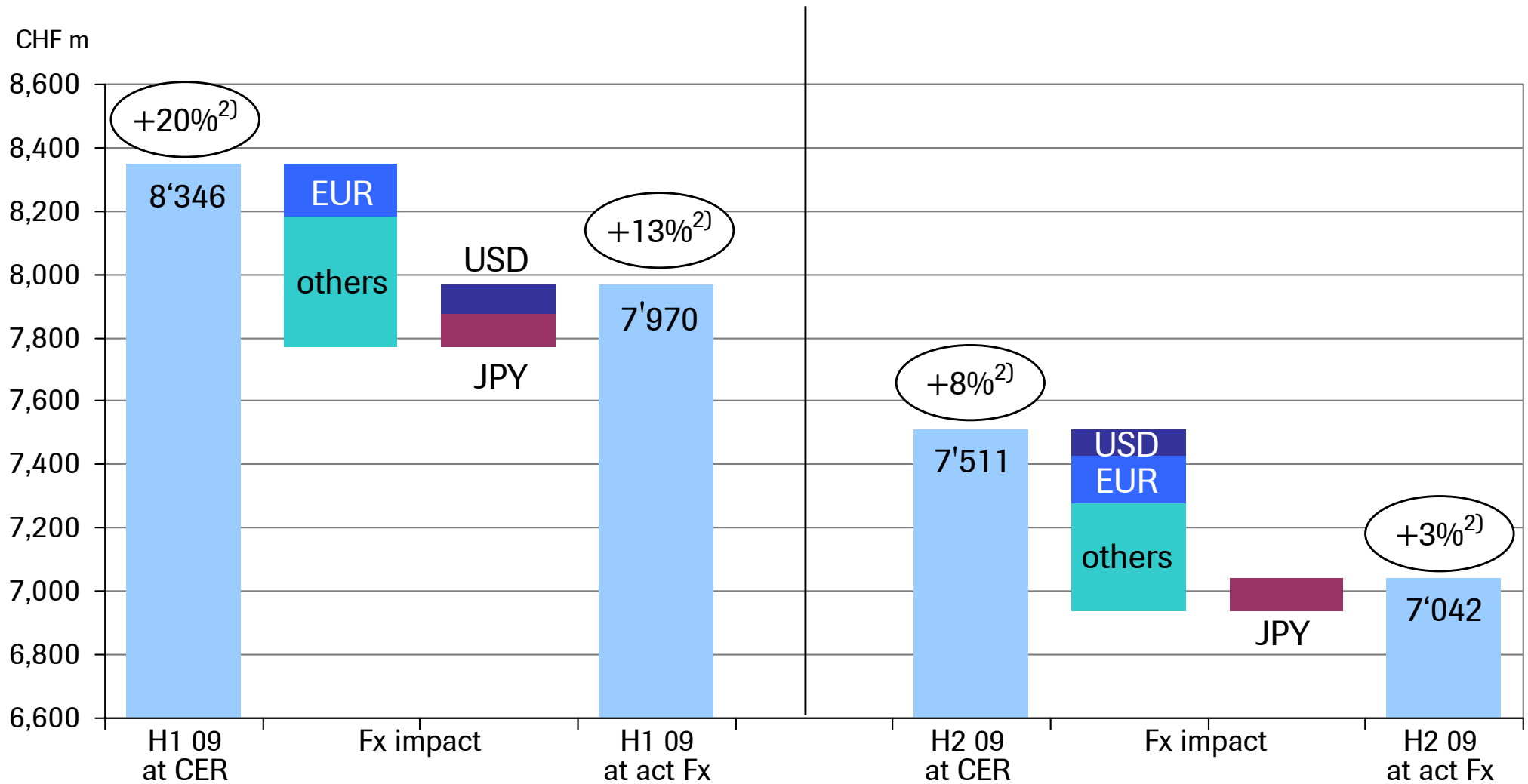
- Negative impact on revenues, as sales translate into less CHF.
- Stronger impact on operating profit, as due to current structure of Roche business, there are relatively less costs in these areas.
- Impact particularly heavy in Diagnostics, due to strength in Europe.

### **Japanese yen – increased against the Swiss franc**

- Positive impact on revenues, as JPY sales translate into more CHF.
- This more for Pharma than Dia, due to relative size of Japanese businesses.
- On operating profit, also positive for Pharma (absolute terms) with little margin impact. Negative for Diagnostics due to major supplier of diagnostics instruments being a Japan-based company.

# Fx impact on Group operating profit<sup>1)</sup> 2009

*Similar effects in both halves of the year*



1) before exceptional items

2) compared to same period 2008

# Changes in the Finance Report

## Foreign exchange

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## **Core EPS**

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## Appendix 1: Genentech transaction

## Appendix 2: Restructuring and integration

# Earnings per share

## *Which one to use?*

### Diluted EPS

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

### Core EPS

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

# Core EPS

## *What does it mean and how can I model it?*

### What is Core EPS

- Not an IFRS defined term, so everyone may have their own definition.
- At Roche:
  - Includes only continuing businesses.
  - Excludes exceptional items.
  - Excludes intangible asset amortisation and impairment.
  - Consistently applied since many years and fully reconciled.

### How do I model Core EPS ?

- Develop your model of Pharma and Dia operating profit before exceptional items.
- Back out amortisation and impairments of intangible assets.
- Add in net financial income, tax and non-controlling interest impacts.
- Use ROFIS (Roche Finance Info System) at the investors section of Roche.com.

# Intangible assets amortisation for 2010-2012

*Estimates based on status at 31 December 2009*

<i>CHF millions</i>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Amortisation	627	553	517
Income taxes	(219)	(194)	(181)
Non-controlling interests	-	-	-

## Assumptions

- Does not include impairments.
- Does not include acquisitions and purchases from 2010 onwards.
- Does not include transfers to 'in use' from 2010 onwards.
- Tax rate assumed at 35%.
- Foreign exchange rates assumed: USD 1.09, EUR 1.51, JPY 1.16.

# Core EPS target at constant currencies

## *What does it mean and how can I model it?*

### Our target

- Core EPS to grow at double digit, in local currencies.

### What does it mean ?

- Core EPS in 2009 was 12.19 CHF.
- The target is for 2010 Core EPS to be at least 10% higher, assuming that average forex rates in 2010 are the same as those in 2009.

### How do I model the forex effect ?

- Look at the published Roche forex rates average 2009 (page 18).
- Compare these to your own assumptions for 2010.
- To the extent these are different, model what the impact is on operating profit using the table at the top of page 19.
- For any US dollar effects, consider the impact on interest expenses on debt.
- Then add in tax effects and (for income at Chugai) non-controlling interests.

## Changes in the Finance Report

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Core EPS

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**Appendix 1: Genentech transaction**

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**Appendix 2: Restructuring and integration**

# Transactions in controlled subsidiaries

*Revised IAS 27 implemented already in 2008*

## Accounting under IAS 27 revised

- Where control does not change, all entries are directly to equity.
- There is no “acquisition accounting”, because there is no acquisition. The transaction is treated as a transaction with equity holders (i.e. the minority interests in equity).

## Implications for Roche reporting

- Already applied to squeeze out minorities, post-acquisition after control is obtained in the first stage (2008: Ventana, 2009: Memory).
- Already applied in 2008 for Chugai Tender Offer for additional 10% of shares.
- Applied in 2009 for purchase of additional shares at Genentech.

as presented to financial analysts on June 12

# Genentech transaction

## *Illustrative pro-forma impact on Group balance sheet*

	<b>As published 31/12/08</b> CHF m	<b>Debt 1)</b> CHF m	<b>Genentech transaction 2)</b> CHF m	<b>Adjusted</b> CHF m
Property, plant and equipment	18,190			18,190
Goodwill and intangibles	15,474			15,474
Other assets	21,654			21,654
Cash and marketable securities	20,771	48,000	-50,000	18,771
<b>Total assets</b>	<b>76,089</b>	<b>48,000</b>	<b>-50,000</b>	<b>74,089</b>
Debt	-4,089	-48,000		-52,089
Other liabilities	-18,178			-18,178
<b>Total liabilities</b>	<b>-22,267</b>	<b>-48,000</b>	<b>0</b>	<b>-70,267</b>
<b>Total net assets</b>	<b>53,822</b>	<b>0</b>	<b>-50,000</b>	<b>3,822</b>
<b>Total equity</b>	<b>53,822</b>	<b>0</b>	<b>-50,000</b>	<b>3,822</b>
<b>Capitalisation (debt + equity)</b>	<b>57,911</b>	<b>48,000</b>	<b>-50,000</b>	<b>55,911</b>

1) Net proceeds from new Bonds and Notes. Does not include Commercial Paper or other short-term borrowings.

2) Cash consideration for outstanding shares. Does not include settlement of stock options, transaction costs and tax impacts.

as presented to financial analysts on June 12

## **Impact on consolidated equity**

*Has strong visual impact but little business impact*

### **Visual impact**

- Balance sheet impact, with book value of Group equity significantly reduced.
- Impact for certain key ratios (e.g. equity ratio, debt/equity ratio).
- Similar accounting impacts in past at other companies from major transactions.

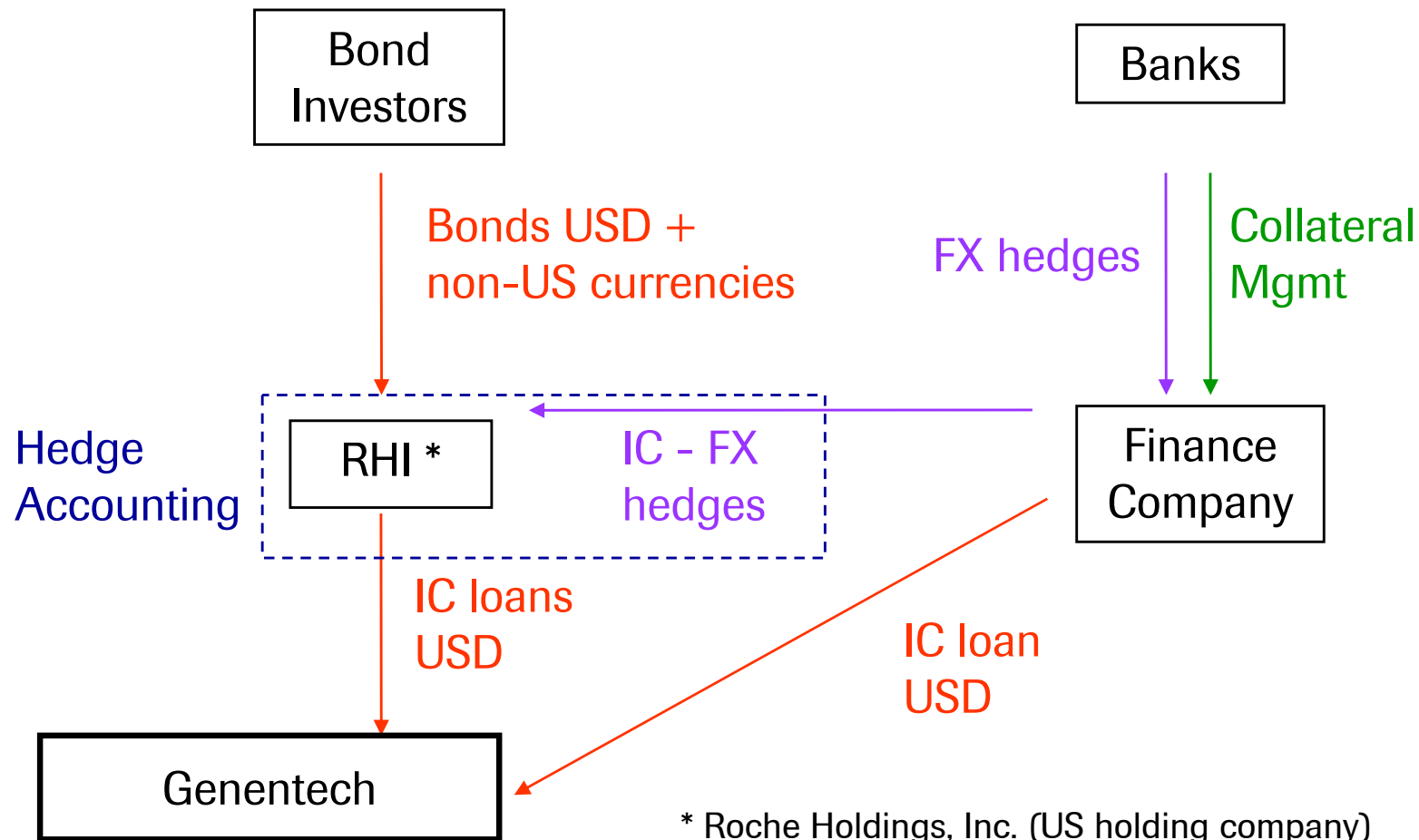
### **Business impact**

- No impact on cash generation and profitability of underlying business.
- No impact on dividend policy or ability to pay dividends.
- The Genentech non-controlling interest is eliminated, so Genentech post-transaction profits are 100% attributable to Roche shareholders.
- No acquisition accounting, so no additional goodwill or intangible assets, and hence no additional amortisation expenses and no additional impairment risk.

as presented to financial analysts on June 12

# Overview Financing and Hedging

*All foreign exchange exposures hedged with derivatives*



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**Appendix 2: Restructuring and integration**

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# Group Income Statement

## *Exceptional items to clarify underlying results*

<b>Sales<sup>2</sup></b>
Royalties and other operating income <sup>2</sup>
Cost of sales
Marketing and distribution
Research and development <sup>2</sup>
General and administration
<b>Operating profit before exceptional items<sup>2</sup></b>
Major legal cases <sup>11</sup>
Changes in Group organisation <sup>8</sup>
<b>Operating profit<sup>2</sup></b>
Associates
Financial income <sup>5</sup>
Financing costs <sup>4</sup>
Exceptional financing costs <sup>5</sup>
<b>Profit before taxes</b>
Income taxes <sup>6</sup>
Income taxes on exceptional items <sup>6</sup>
<b>Net income</b>
Attributable to
– Roche shareholders
– Non-controlling interests

Restructuring and one-time integration costs

Loss on sale of bonds to increase USD liquidity  
‘Cost of carrying’ the acquisition financing up to the transaction date

Tax benefit on the above exceptional items  
Additional tax benefit on Genentech stock options

# Restructuring & one-time integration costs

## *Costs of 2.4 bn CHF incurred in 2009 ...*

### Changes in Group organisation | in millions of CHF

	2009	2008
Employee-related costs		
– Termination costs	227	99
– Pensions and other post-employment benefits	(33)	(12)
– Genentech Employee Retention Program expenses	-	94
– Genentech stock options: accelerated vesting expenses	236	-
– Other retention plans and other employee benefits	40	15
– Other employee-related costs	100	6
<b>Total employee-related costs</b>	<b>570</b>	<b>202</b>
Site closure costs		
– Impairment of property, plant and equipment	1,083	10
– Accelerated depreciation of property, plant and equipment	103	26
– Other site closure costs	232	5
<b>Total site closure costs</b>	<b>1,418</b>	<b>41</b>
Impairment of intangible assets	286	-
Other reorganisation expenses	141	-
<b>Total</b>	<b>2,415</b>	<b>243</b>

# Restructuring & one-time integration costs

*... of which 1.8 bn CHF are non-cash items*

## Changes in Group organisation | in millions of CHF

	2009	2008
Employee-related costs		
– Termination costs	227	99
– Pensions and other post-employment benefits	(33)	(12)
– Genentech Employee Retention Program expenses	-	94
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Impairment of intangible assets	286	-
Other reorganisation expenses	141	-
<b>Total</b>	<b>2,415</b>	<b>243</b>

'Other site closure costs' and 'Other reorganisation expenses' also include some minor non-cash items.



*We Innovate Healthcare*