

Basel, 10 December 2001

Special Media Conference

held in Basel on 10 December 2001, 10.30 hrs, C.E.T.

Speeches English

(The spoken text is definitive)

- [Franz B. Humer](#)
Chairman of the Board of Directors and CEO [Slides](#)
- [Erich Hunziker](#)
Member of the Executive Committee and Chief Financial Officer [Slides](#)

[German](#)

Franz B. Humer

(The spoken English text is definitive)

Ladies and Gentlemen,

Welcome to this special media conference, called to inform you that Roche will combine its Japanese subsidiary, Nippon Roche, with Chugai to create a leading new pharmaceutical company in Japan. I would like to thank you for your interest in our company and in this important transaction.

Agenda of media conference

First of all, however, allow me to say a few preliminary words about the agenda and speakers at this media conference. I will start by presenting an overview of general aspects of this unique transaction. Erich Hunziker, Chief Financial Officer of Roche, will speak about the transaction structure and financial implications. Mr Osamu Nagayama, Chairman and CEO of Chugai, will join us via video link from the media conference in Tokyo. He will be followed by Mr Cohen, a member of the Board of Chugai, who honours us with his presence here in Basel, together with Mr Suzawa, Deputy President of Chugai and its CFO. Mr Cohen will briefly comment on the new Chugai from his perspective, before turning the floor over to Mr Shigeta, present Chairman and Representative Director of Nippon Roche.

We will gladly answer any questions you might have. And lastly, I would like to draw your attention to the fact that the conference can be accessed via live webcast, in English and German, on the Internet.

Let me start with the overview:

Announcement of unique transaction in the Japanese Rx market

I take great pleasure in announcing today the largest transaction ever effected by Roche in Japan. The new enterprise to be formed from the merger of Nippon Roche and Chugai will be one of the most powerful research, development, manufacturing and marketing organisations in Japan. The Roche Group will be the majority shareholder, with a 50.1% interest in the new business.

This transaction will be the first in which a non-Japanese company acquires a majority interest in a Japanese pharma company in one step. Chugai will retain its name and identity and remain listed on the Tokyo Stock Exchange.

Following Genentech, Syntex and Boehringer Mannheim in the 1990s, this transaction will enable us to attain yet another of our strategic goals: to become a leader in the second largest pharmaceutical market in the world. I am delighted to welcome Chugai and all of its people into this alliance.

Quantum leap forward for both Chugai and Roche

The new enterprise will rank fifth in sales in Japan, with pro forma sales revenues of 253 billion Yen (CHF 3.4 billion). This is the strongest presence of any non-Japanese pharma group in the country. The 'old' Chugai will move up from its current number 10 position; Nippon Roche currently ranks 32nd in pharmaceutical sales. The alliance will increase the Roche Group's pharmaceutical sales by approximately 15%, to a pro forma total of CHF 20.5 billion in 2000; pro forma Group sales for the same year will amount to CHF 30.4 billion. As a result, the Roche Group will rank among the world's top 10 pharmaceutical companies, up from number 12, with a market share of approximately 3.5%. Japan will now account for 19% of our total pharmaceutical sales and will be our second largest market, behind the United States.

One of the strongest marketing and sales forces in Japan

This unique merger will create one of the leading sales and marketing forces in Japan, allowing both Roche and Chugai to fully exploit the potential of their existing and future products. After the transaction, Chugai will have a combined sales force of approximately 1400 medical representatives, the fourth largest in the country, up from its current number 19 position. For the Roche Group, combining the sales forces of Chugai and Nippon Roche will significantly enhance our capabilities, and coincides with our recent product launches of Herceptin, MabThera/Rituxan and Tamiflu, and the upcoming launches of other major products, including Pegasys and Xeloda. Additionally, Chugai has a strong presence in the OTC market. Together with Roche's strong OTC brands this will provide a solid foundation for growth in this market.

The combined sales force is expected to generate enhanced sales by strengthening the market penetration of products from both companies allowing us to achieve a combined sales target of Yen 300 billion (CHF 4 billion) within three years.

Improving Roche's geographic balance

As I said, for Roche, this transaction will uniquely enhance our position in the world's second largest pharmaceutical market. It will be value-adding, and therefore will strengthen the Roche organisation in Japan, where our current market presence is not adequate. In forging this new alliance, Roche will significantly increase its market share in Japan, from a current figure of roughly 1% to 3.7%.

The partnership with Roche will enhance Chugai's presence in its home market and provide it with a strong international partner. Roche will help Chugai to leverage its products internationally and give Chugai access to its global R&D and marketing capabilities. Roche is Chugai's partner of choice in all markets: We will be able to license in rights for all products that Chugai decides to partner outside Japan and South Korea.

Let me say a few words about the market opportunities we see in Japan.

Huge opportunities in the second largest pharma market

Multinational pharmaceutical firms have a long history of trying to build a strong presence in Japan. Only Pfizer and Merck, which rank 8 and 9 respectively, have made any significant inroads. Although the relative value of the Japanese pharmaceutical market has diminished in recent years due to slower growth than the US, it is the largest single national market after the US. Its value is well over USD 51 billion, making it about equal in size to the German, French and UK markets combined.

Looking at the underlying trends, one can see that Japan has significant growth potential:

- First, Japan's ageing population is driving demand; the country has one of the fastest ageing populations in the world. Currently, 17% of the Japanese population are over 65 years of age. This group accounts for 53% of Japanese prescription medicine spending. Japan's elderly population will exceed 20% of the Japanese population by 2010 and is expected to number more than 28 million people by then, up from 21 million today.

- Second, market conditions are changing. The country's regulatory and clinical environment is increasingly being harmonised with the rest of the world. Recent reforms by the Japanese government have already significantly improved the market environment for foreign pharmaceutical companies. These include the adoption of streamlined administrative procedures and increased acceptance of foreign clinical data, supplemented, where necessary, by bridging studies, as the basis for Japanese approval. The approval time for new chemical entities has been considerably reduced, and now averages about one year.

Japan is a market where prices of innovative products are in fact improving. Our experience with MabThera/Rituxan has already shown that pricing levels there can be as attractive as in much of the rest of the world.

Moreover, upcoming regulatory reforms in the Japanese drug market are expected to create a more rewarding environment in the coming years for innovation and thus for research-based companies such as Nippon Roche and Chugai. We see significant opportunities in the Japanese market, and we believe that there is a significant 'first mover advantage'.

Chugai — an ideal partner for Roche

The combination of Nippon Roche and Chugai's sales and marketing strengths, led by Chugai's extensive management experience, will provide a significantly stronger base for launching new products.

Our two companies' product portfolios and highly professional teams complement each other ideally, and we also share a common set of values. Both companies think globally but act locally. Both companies believe in scientific and technological advancement — both businesses are R&D driven, with biotechnology a key component. Chugai's research is focused primarily on large molecules (such as monoclonal antibodies) and is among the most innovative in the Japanese pharmaceutical industry.

I know that with Osamu Nagayama as Chairman and CEO, the new Chugai will have strong leadership. Osamu and I have known each other for many years and have developed a strong personal relationship based on mutual respect and trust. In fact, I plan to invite him, as far as is practicable, to serve as an ad-hoc member of our Executive Committee. I am confident that this spirit of respect and trust will spread to all levels of our organisation.

New enterprise — a strong portfolio in fast-growing markets

Chugai is a fully integrated prescription pharmaceutical company, with activities in the OTC sector as well. Its high level of expertise in cancer, blood disorders and bone metabolism complements our product portfolio almost ideally. There is a very good fit between the therapeutic areas targeted by Roche and Chugai: together, our products will create a diversified portfolio with a strong position in the fast-growing oncology and hematology, renal, bone-disease and virology market segments.

New enterprise — top ten prescription medicines (pro forma 2000)

Four of the new enterprise's top ten products will come from Roche and six from Chugai, including Epogin used in anemia, which will account for a quarter of total sales, with a share of 60% of the Japanese anemia market. In other therapeutic areas Chugai will have a unique portfolio, with leading products like Alfarol, for osteoporosis, Sigmart, for the treatment of angina pectoris, and Furtulon and Kytril in oncology.

New enterprise — promising launches of innovative products

The decisive short-term benefit of this new alliance, however, will be its added power to drive new products in Japan. The quantum leap in sales and marketing strength coincides with a wave of major new product launches which we expect to help generate greater and faster sales penetration.

The new enterprise has both the critical mass and the cultural background needed to fully exploit the potential of Roche's recent product launches in Japan — CellCept, Tamiflu, Herceptin and MabThera/Rituxan — along with Suvenyl and Oxarol, which Chugai launched in 2000. The same holds true for products scheduled to be launched in Japan in the near future, such as Roche's Xeloda, Pegasys, Tarceva, second-generation EPO, and Chugai's raloxifene.

Synergies in sales and development — the oncology example

The oncology franchise is a good example of how sales can be accelerated by bringing together talented people and products from both companies.

For a long time Furtulon, approved back in 1987, was Nippon Roche's only cancer product. This year Herceptin and /MabThera/Rituxan were approved and together with Kytril launched in Japan. Xeloda will follow in 2002.

The combined company will significantly strengthen our high-growth oncology franchise. Promising new drugs coming through both partners' development pipelines, such as Chugai's CGS (expected in 2003) and Roche's Tarceva (expected in 2005), will further enhance our portfolio in this key therapeutic area.

New enterprise — leveraging our pipeline in Japan

The combined global research & development pipeline will include 46 new molecular entities from Roche and 14 compounds from Chugai. Nine Chugai compounds are scheduled for launch in the next five years. Chugai's pro forma R&D budget represents approximately 20% of its net sales, among the highest in the Japanese pharmaceutical industry. Chugai's innovative power will increase significantly when Roche's successful Japanese research unit in Kamakura is combined with Chugai's research organisation in Japan, the US and Asia-Pacific. Drawing on combined expertise in antibodies, small molecule research and vitamin D derivatives, Chugai's R&D will focus on oncology, along with bone, renal and cardiovascular diseases, with a number of compounds suited for global development and marketing.

This research focus mirrors Roche's long-standing commitment to innovation and its therapeutic focus. The transaction enhances Roche's pipeline, and the Group's global R&D investments will exceed 4 billion Swiss francs (300 billion Yen) after the merger. Chugai will be Roche's sole representative in Japan, with rights to develop and market all pharmaceutical products which the Roche Group decides to commercialise in Japan. Roche will have the right to opt-in on the marketing or comarketing of Chugai products outside Japan and South Korea for which Chugai seeks a partner. The way this transaction is structured is highly innovative: it creates a completely new business model for growth and shareholder value in the Japanese pharmaceutical market.

Management nominations

Osamu Nagayama, currently Chairman and CEO of Chugai, will become Chairman and CEO of the new enterprise. Wataru Ogawa, currently President and CEO of Nippon Roche, will join Chugai's Board as Executive Vice-President.

I am confident that the employees of the new Chugai will be proud to be part of one of Japan's and the world's strongest pharmaceutical companies. The trust Osamu and I have in each other is reflected in the governance agreement. He will be responsible for the company's day-to-day operations, while Roche will have a significant voice through its representation on the Board and appointees to working groups and committees. William M. Burns and Hiroaki Shigeta of Roche, as well as myself, will be nominated for election to the Board of Chugai.

The structure of the transaction is quite similar to the Genentech model, perhaps the best example of the way in which Roche has maintained the operational freedom of a partner. The Genentech relationship proves that we can successfully manage and take full advantage of the benefits a strong partner has to offer, while in turn the partner can make full use of Roche's global capabilities and reach. The alliance with Chugai goes a step further: in merging two local companies, we are creating a new entity that is much more than the sum of its parts. The result is clearly a win-win situation for all concerned.

Partnering with other companies is a successful and well-established element in our corporate strategy. We have always recognised the value-enhancing potential of partnerships that capitalise on the best that two organisations have to offer.

Through internal growth and targeted acquisitions we will continue to strengthen our position as a leading global healthcare company that offers innovative, cost-effective products and services. As yet another expression of a strategy that promotes innovation while consistently building on our strengths, the creation of this new enterprise is a further milestone.

This transaction puts us on a stronger footing in the important Japanese market and will enhance the prospects and value of both companies. Moreover, we will still have the financial strength to act quickly and flexibly should further strategic opportunities arise. Our focus is still on delivering long-term shareholder value, and this transaction fits that aim.

Closing remarks

Ladies and Gentlemen,

I am well aware that this transaction is also an entrepreneurial challenge, not only for management but for all employees at all levels in both companies in Japan. We are confident that we will successfully meet this challenge, not least because of the support and leadership being provided by the management of Chugai. I look forward immensely to working with old and new colleagues in Japan to build our presence as a market leader. With this strategic move we are laying the foundation for a bright future for Chugai in Japan.

Erich Hunziker

(The spoken English text is definitive)

Ladies and Gentlemen,

On numerous occasions in the past Roche has successfully anticipated trends, and whenever it has shown the entrepreneurial courage to take on new challenges, the result has been a big step forward.

Track record in value creation

Let me just remind you of a few strategic moves which have created tremendous added value for the Roche Group in terms of products, pipeline, technology and geographic presence:

- our early investment in biotechnology, by acquiring a majority interest in Genentech (1990).
- the far-sighted purchase of PCR technology for USD 300 million at a time when its enormous potential was not obvious (1991); last year alone, we recorded sales of USD 440 million and significant licence revenues related to our PCR technology.
- the acquisition of Syntex (1994), which put us at the forefront of the consolidation process in our industry and strengthened our pharmaceuticals business in the US.
- the acquisition of Boehringer Mannheim (Corange, 1997), which catapulted Roche into the number 1 position in diagnostics worldwide and opened up new horizons for integrated healthcare solutions combining therapeutics and diagnostics.

We are convinced that novel forms of cooperation, such as our successful relationship with Genentech, will become even more important in the future. I strongly believe that the creation of the new Chugai in the key Japanese market will open up additional strategic opportunities for the Roche Group's pharmaceuticals business. Our two companies' highly professional teams and product portfolios ideally complement each other.

Major steps of the transaction & next steps

The way this transaction is structured is very innovative and creates a new business model for growth and shareholder value in the Japanese pharmaceuticals market. Basically, the transaction consists of three steps:

- In order to maximise the benefit for Chugai shareholders, Chugai will spin off its US-based diagnostics subsidiary, Gen-Probe, which was acquired by Chugai in 1989. After the spin-off Chugai shareholders will directly own Gen-Probe shares, which will be listed on the American Stock Exchange.
- Next, Roche will offer to purchase up to 10% of Chugai's then outstanding shares at a price of 2136 Yen by launching a tender offer bid. Chugai shareholders who accept the tender offer will get a premium of approximately 16% over the average closing price of Chugai shares during the last three months, or 12% over an average closing price during the last 6 months.
- Roche will then increase its equity stake in the new enterprise by subscribing additional Chugai shares at an issue price of 1780 Yen per share.

- This purchase will be followed by the merger of Chugai and Nippon Roche. Roche will contribute Nippon Roche into the new enterprise and receive shares in the new entity in turn. The effective merger ratio for the Chugai/Nippon Roche merger has been set at 61:39.
- This will result in Roche owning 50.1% of Chugai's issued share capital. In the event that any of Chugai's convertible bonds remain outstanding, Roche will acquire similar convertible bonds of equivalent value instead of Chugai shares.

The cash cost of Roche's investment will be approx. 150 to 200 billion Yen, depending on the outcome of the tender offer and on the conversion of Chugai's existing convertible bonds.

Financing the transaction

As you may recall, Roche has frequently pointed out that its key goal in using its cash holdings is to strengthen its operations. Since 1988 Roche has spent approximately 18 billion Swiss francs on company and product acquisitions net of divestitures. With these acquisitions we have expanded our market position in core areas and steadily enhanced the Group's long-term worth.

Given Roche's strong balance sheet, we have significant flexibility in how to finance this transaction. The actual financing will depend mainly on the timing of the transaction and the conditions prevailing on financial markets at that time. We are confident that the generally low interest rates on debt denominated in Yen will allow us to formulate an attractive long-term financing plan, something we have experience with through our historical Yen financing programs.

Financial impact of the transaction

This strategic transaction will strengthen our position in a key market where we are striving for leadership and create long-term value. Naturally, it will also have an impact on our financial results.

According to our analysis to date, based on 2000 results and exchange rates, the merger will result in a sales increase of CHF 3 billion (or CHF 2.5 billion at current exchange rates) a year at our Group and Pharmaceuticals Division levels.

Once the integration of the sales forces has been completed, Roche expects to generate stronger growth thanks to the new enterprise's enhanced sales and marketing capabilities at a time when we are launching a wave of new products including Herceptin, Tamiflu, and Pegasys in Japan. EBITDA will increase by CHF 500–600 million in the first full year following the completion date while the EBITDA margin will be slightly lower.

Our operating profit levels are also expected to slightly increase, despite substantial additional amortisation charges arising from the transaction of approximately CHF 400 million per year. However, our previously stated goal of improving the operating profit margins in the Pharmaceuticals Division from their current levels of 19% in the first half of 2001 to 20–25% in 2–3 years will be pushed back by roughly one year, and we remain confident that we will achieve this target.

On an EPS basis, because of the additional amortisation charges, we expect the transaction to be less than one-half of one percent dilutive, in the first year following completion, but accretive on a cash EPS basis.

In the medium term, we expect that this transaction will be accretive to Roche once cost savings and sales synergies have been fully realised.

Prior to closing, the transaction will be subject to approval by special resolutions of Chugai shareholders at the Annual General Meeting scheduled for the end of June 2002, in addition to being subject to approval by the Japanese FTC and other authorities.

We are confident that the authorities will approve the transaction, and anticipate closing in the fourth quarter of 2002.

Conclusion

Ladies and Gentlemen,

The proposed transaction will move Roche's Pharmaceuticals Division up from number 32 to number 5 in the world's second largest pharmaceuticals market, giving a quantum boost to the potential of our innovative product portfolio. Since only 20% of the transaction value will be financed with liquid funds, we will retain the flexibility to respond to additional strategic healthcare opportunities.

I am convinced that our two great companies, both Roche and the New Chugai, will forge ahead in a spirit of true partnership to bring this transaction to a successful closing.

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