
Investors/Analysts Conference
Half year 2004
Accounting Workshop

Ian Bishop

Chugai IFRS reporting

Roche Consumer Health

Earnings Per Share

Changes in IFRS – 2005

Chugai IFRS reporting



- Listed on Tokyo Stock Exchange
- Publishes results in accordance with Japanese accounting rules (JGAAP)
- Flash Report on 13 July 2004 of provisional unaudited results
- Official audited results due on 3 August 2004

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Chugai IFRS reporting



JGAAP vs. IFRS differences

- Acquisition accounting: For JGAAP merger accounting is used to account for the Roche/Chugai transaction
 - no acquisition accounting (goodwill etc) in JGAAP results
- Depreciation: IFRS uses straight-line method, JGAAP uses reducing balance method.
 - currently higher depreciation expenses in JGAAP results
- Extraordinary items: JGAAP allows a wider use of extraordinary items that are excluded from regular operating results
 - certain income / expenses can be classified differently

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Chugai IFRS reporting

Chugai results under IFRS



	Six months ended 30 June 2004 CHF millions	Six months ended 30 June 2003 CHF millions
Operating profit before exceptional items and before acquisition accounting impacts (IFRS basis)	284	166
- write-off of fair value adjustments to inventories	-	(49)
- depreciation of property, plant and equipment	(5)	(5)
- amortisation of acquired intangible assets	(35)	(34)
Operating profit before exceptional items (IFRS basis)	244	78
of which		
- Chugai prescription	235	85
- Chugai OTC	9	(7)
Total Chugai	244	78
Add (deduct) exceptional items		
- amortisation of goodwill	(6)	(5)
Segment result / operating profit (IFRS basis)	238	73
of which		
- Chugai prescription	229	80
- Chugai OTC	9	(7)
Total Chugai	238	73

Translated at 100 JPY = 1.17 CHF (2003: 100 JPY = 1.14 CHF).

A reconciliation between the Chugai JGAAP results and the Chugai IFRS results will be published on 3 August, when Chugai publish their final JGAAP results.

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Chugai IFRS reporting



Roche Consumer Health

Earnings Per Share

Changes in IFRS – 2005

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Roche Consumer Health + Orlistat OTC (US)



Accounting overview of transactions

- Two separate transactions
- Roche Consumer Health
 - divestment of RCH business segment
 - disposal of 5 Pharma manufacturing sites
- Orlistat OTC in United States
 - out-licensing by Roche Pharma business

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Roche Consumer Health + Orlistat OTC (US)



RCH transaction: presentation and disclosure

- Roche Consumer Health
 - shown as discontinuing business
 - gain on divestments: exceptional item
- 5 Pharma manufacturing sites
 - remain as part of the continuing Roche Rx business
 - gain on disposal: exceptional item

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Roche Consumer Health + Orlistat OTC (US)



RCH transaction: calculation of gain on divestment

- Purchase price
 - price adjustment mechanisms: net debt and working capital
 - forex
- Incidental costs
- Book value of net assets sold
 - movements in value until closing
 - forex
- Roche Group entries
 - pensions, provisions, impairments, etc.
- Taxes

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Roche Consumer Health + Orlistat OTC (US)



Orlistat OTC in United States: accounting treatment

- Out-licensing deal, part of our continuing Pharma business
- Accounting as described in accounting policies
 - (Annual Report page 77)
- Income is recognised as earned
 - over period of collaboration / manufacturing obligation
 - on achievement of performance milestones
- Not an exceptional item

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Roche Consumer Health + Orlistat OTC (US)



Impact on EPS: neutral to accretive

Negative impacts

- RCH makes a positive contribution to Roche Group net income
 - annual contribution about CHF 200 million

Positive impacts

- Exceptional gain in 2004 of about CHF 2 billion
- Additional cash available of CHF 3+ billion
 - reinvestment in high margin Pharma & Diagnostics businesses
 - reduction of debt
- Orlistat OTC US rights
 - income from milestones and royalties
 - the product will be marketed by a top tier OTC company instead of Roche having to build the market

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Chugai IFRS reporting

Roche Consumer Health

Earnings Per Share

Changes in IFRS – 2005

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Earnings Per Share



EPS – Basic EPS

- EPS = Earnings divided by number of shares
- Earnings is net income (IFRS basis)
 - be sure you know what “E” you are using in EPS
- Number of shares is weighted average number of outstanding shares (i.e. net of share issues/repurchases and treasury shares)
 - for Roche, LEPOs are treated as treasury shares in the EPS calculations

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Earnings Per Share



EPS – Diluted EPS

- Diluted EPS also takes into account potential dilutions to shareholder return
- Employee Share Options: exercise of vested options would increase number of shares outstanding
- Convertible Debt: conversion would lead to reduction of interest expenses (net of tax) while number of shares outstanding would increase
- Also includes minority interest impacts

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Earnings Per Share



Roche's diluted EPS calculations

- Full reconciliation is given in the annual financial statements (also in previous years)
- Convertible debt is usually dilutive, apart from LYONs III
- Roche Option Plan impact has been relatively minor to date
- Genentech stock options effect depends upon the Genentech result and the number of exercisable options

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Earnings Per Share



EPS – Continuing businesses before exceptionals

- Not an IFRS measurement, everyone has their own definition (EBIT per share, EPS before goodwill, etc.)
- Top-down method: take net income and back out exceptional items (including tax and minority impacts)
- Bottom-up method: take Pharma and Dia Operating Profit before exceptional items, and add in financial income, tax and minority impacts
- Don't forget the dilutive effects

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Earnings Per Share



Continuing businesses before exceptional items

	30-Jun 2004	30-Jun 2003
Earnings		
Profit before tax	3,444	2,457
Income taxes	-839	-654
Minority interests	-277	-183
	2,328	1,620
Dilutive impacts		
Convertible debt interest	25	31
Genentech stock options	-12	-11
Net income	2,341	1,640
Per share		
Average shares in issue	840	840
Dilutive convertible debt	19	21
	859	861
EPS	2.72	1.90

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Earnings Per Share



EPS – Excluding intangible asset amortization (Continuing businesses before exceptionals)

- Again not an IFRS measurement
- Add back additionally intangible asset amortisation, including tax and minority interest impacts

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Earnings Per Share



Continuing business before exceptional items and before intangible asset amortization

	30-Jun 2004	30-Jun 2003
Earnings		
Continuing pre-exceptional income	2,341	1,640
Intangibles amortisation	504	483
Income taxes	-181	-175
Minority interests	-30	-30
Net income	2,634	1,918
Per share		
Average shares in issue	840	840
Dilutive convertible debt	19	21
	859	861
EPS	3.07	2.23

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Changes in IFRS – 2005



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Changes in IFRS – 2005

New/revised standards announced for 2005

- IFRS 2 'Share based payment'
- IFRS 3 'Business combinations'
- Others
 - IAS improvements
 - revised IAS 32/ IAS 39 'Financial instruments'
 - IFRS 4 'Insurance contracts'
 - IFRS 5 'Assets held for sale / discontinuing operations'
 - revised IAS 36 / IAS 38 'Impairments' / 'Intangible assets'

Changes in IFRS – 2005

Others (not IFRS 2 and IFRS 3)

- Presentation and disclosure changes
- Retrospective application of changes
- Financial instruments
- Property, Plant and Equipment
- Intangible assets

Changes in IFRS – 2005

IFRS 3 'Business combinations'

- Goodwill amortisation stops in 2005 (also stops in 2004 for any new acquisitions after 31 March 2004)
- But 2004 will not be restated
- Impairment testing
 - Roche already does this for goodwill anyway
- Acquisition accounting
 - more intangible assets

Changes in IFRS – 2005

IFRS 2 'Share based payment' - current Roche plans

- Roche Performance Share Plan, and Stock Appreciation Rights
 - performance related / variable plans
 - benefit is not fixed at grant date
 - “cost” is accrued over vesting period and charged to income
- Roche Option Plan, and Genentech and Chugai plans
 - fixed plans
 - benefit is fixed at grant date
 - expense is measured at intrinsic value at grant date
 - intrinsic value is difference between share price and exercise price.
Typically zero for “at the money” option grants

Changes in IFRS – 2005

Implications of IFRS 2

- Would mean additional operating expenses for Roche, and all other IFRS users. No impact on US GAAP users
- Creates another US GAAP vs. IFRS difference (until US GAAP changes)
- Fixed plans would cause an expense, but not necessarily as high as Black-Scholes values
- Impact of Roche Option Plan and Chugai plan relatively minor. Impact of Genentech plans more significant
- Impacts 2005, with 2004 restated

Changes in IFRS – 2005

IFRS 2 – practical issues

- Major impact relates to Genentech plans
- Not an exceptional item
- Will be allocated across cost centres
- Transition rules
- Roche implementation project underway for second half 2004