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# Roche: Navigating through a volatile environment

*London, Singapore, Tokyo, November 2010*  
*Dr. Erich Hunziker, Deputy Head of the  
Corporate Executive Committee and CFO*

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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;
- 4 fluctuations in currency exchange rates and general financial market conditions;
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- 6 increased government pricing pressures;
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## A position of strength

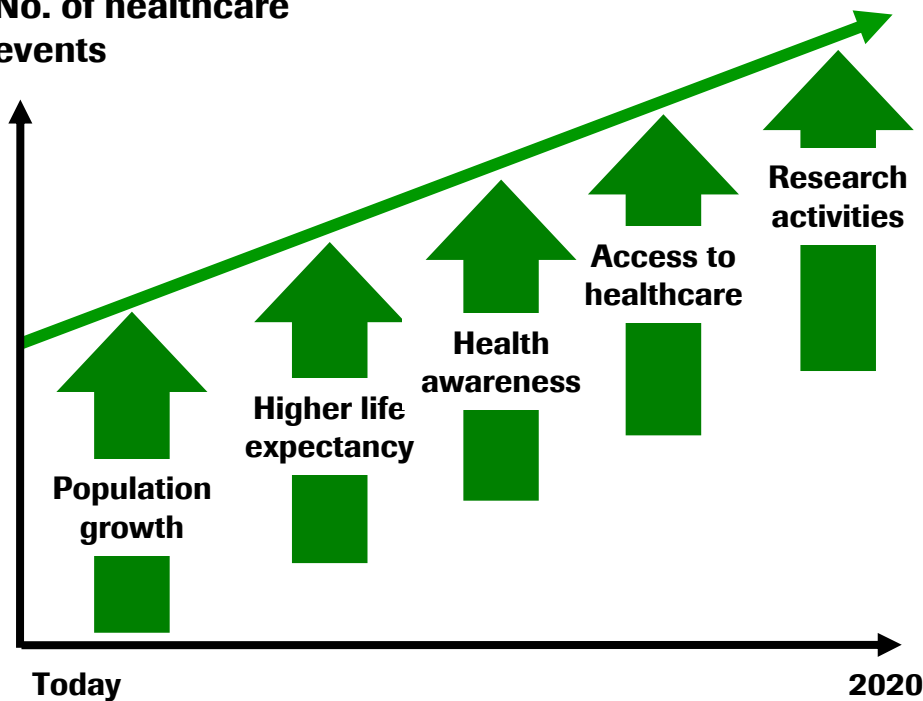
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**Operational Excellence – adapting to a changing environment**

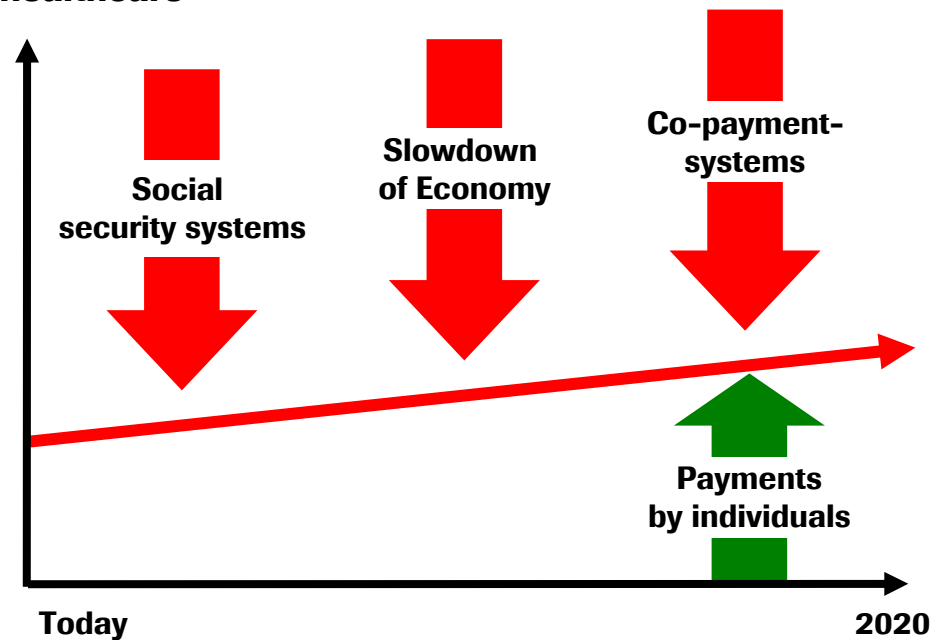
**Continued focus on innovation**

# Even in an economic downturn demand for healthcare increases; but funding is and will become more challenging

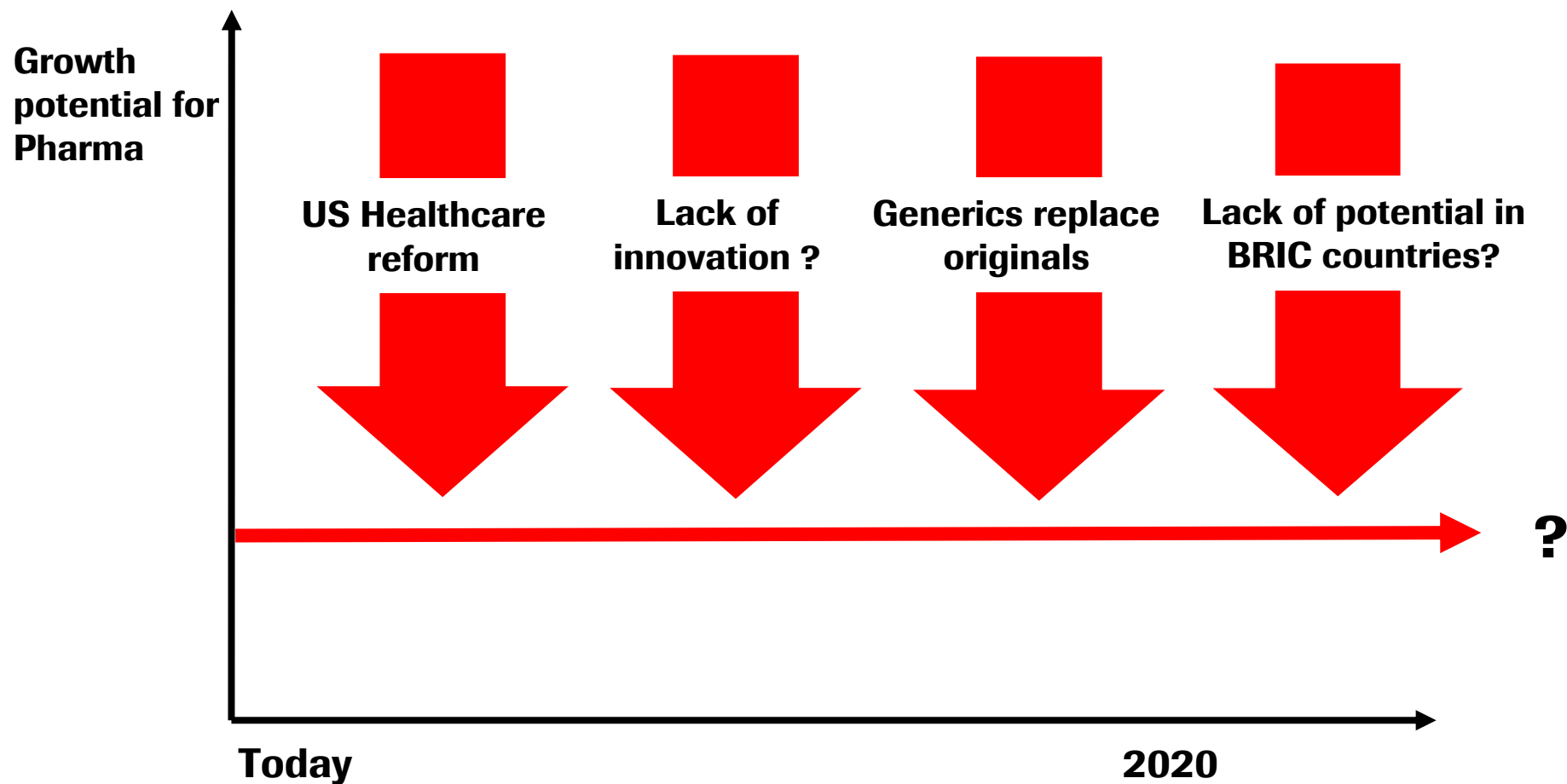
No. of healthcare events



Funding of healthcare



# Investors see fundamental challenges for “Pharma”



# Impact of US healthcare reform

## *Extending coverage to an additional 32 million\* Americans*

### Biosimilars

- 12 years data exclusivity
- 2 routes for biosimilar approval:
  - Proof of **similarity**
  - Proof of **inter-changeability**

Both requiring clinical trials  
(still to be specified by FDA)

### Financial impact

**2010:** ~CHF 200 m (Medicaid and hospitals rebates)

**2011+ :** 2010 + Excise tax

**2013+ :** offset impact by volume

# Emerging markets show strong growth *and are another Roche focus point*

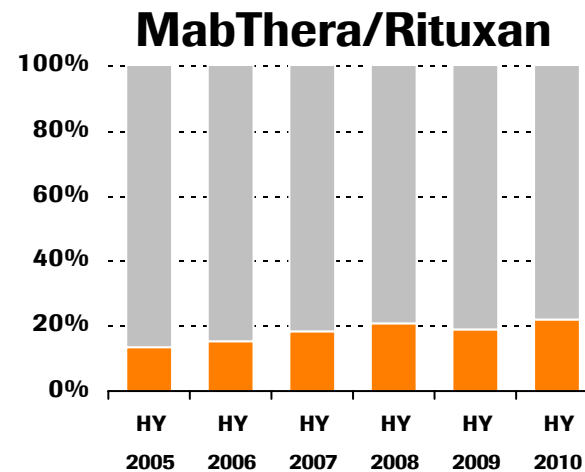
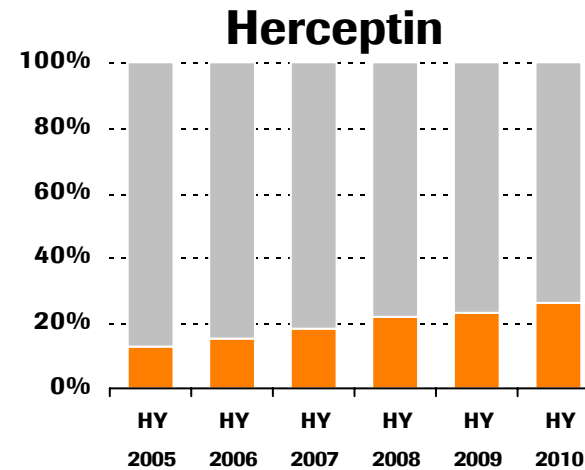
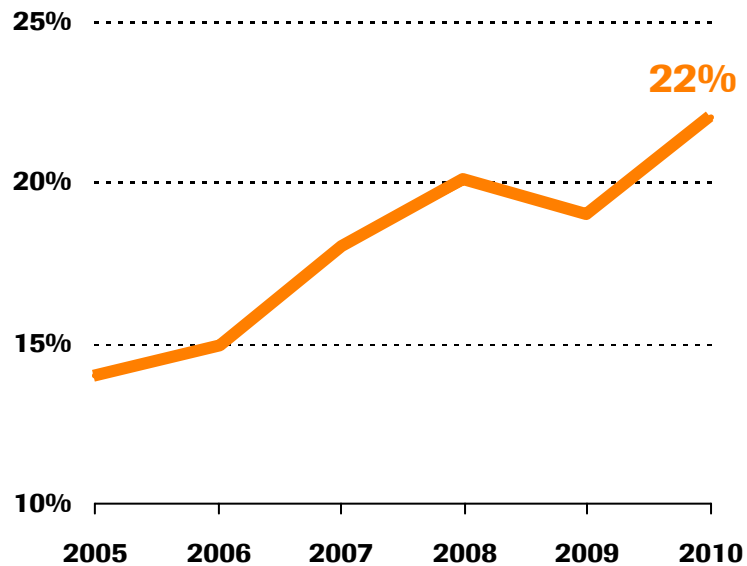
Growth (CAGR)	2008-14
US, EU	3-4%
APAC, LATAM, CEMAI	9-13%
Total	5-6%

IMS Health Pharma Market Ranking 2013 US \$ Bio		
1	United States	289.8
2	Japan	93.3
3	China	66.7
4	Germany	46.1
5	France	40.1
6	Spain	26.6
7	Italy	26.1
8	Russia	23.4
9	Brazil	22.9
10	Canada	20.5
11	UK	20.4
12	Venezuela	20.2
13	Turkey	16.3
14	India	15.6
15	Mexico	12.4

# Roche in Emerging Markets

## *Oncology leading the trend*

International region as  
% of Oncology sales



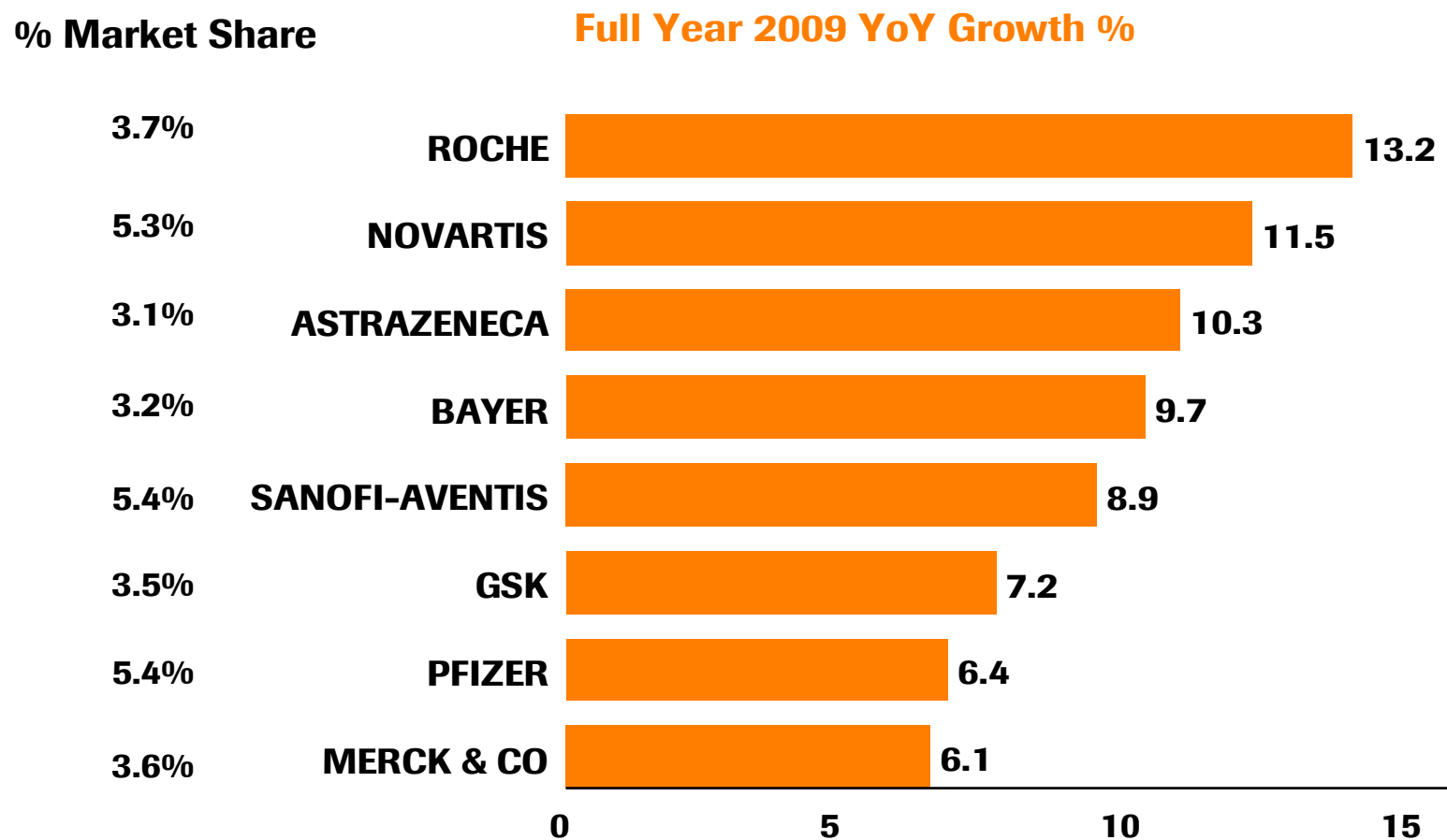
Rest  
International





# Emerging markets also reward innovation

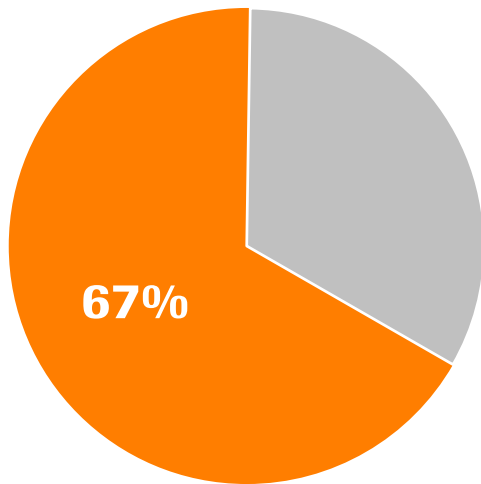
## *Roche has the leading growth rate in emerging markets*



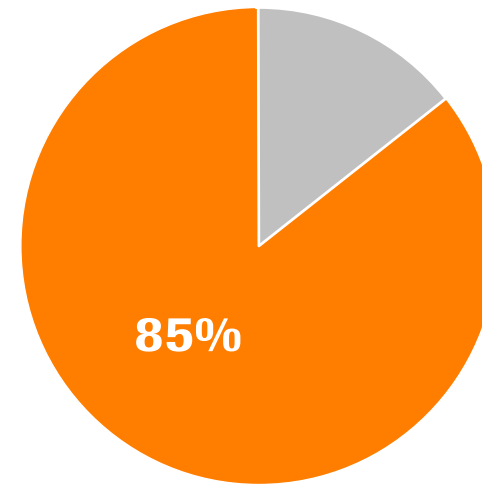
Source: IMS Health MIDAS FY 2009 US\$ LC Roche International Regions: Asia Pac, CEMAI, Lat AM (based on Roche subscription)

# Biotech products drive growth in both divisions

Pharma Division



Diagnostics Division



**Biotech products as % of sales**

# Long patent protection

## *Biosimilars facing high hurdles*

### Long primary patent protection of our key biologics

Patents	US	EU ROW/EM
Avastin	2019	similar
Lucentis	2019	marketed by Novartis
Rituxan/ MabThera	2018	earlier
Herceptin	2019	earlier
Pegasys	2018	similar

### Biosimilars outlook

**US:** recent healthcare legislation opens pathway for biosimilars

FDA in the process of developing guidelines

Data exclusivity for biologics 12 years

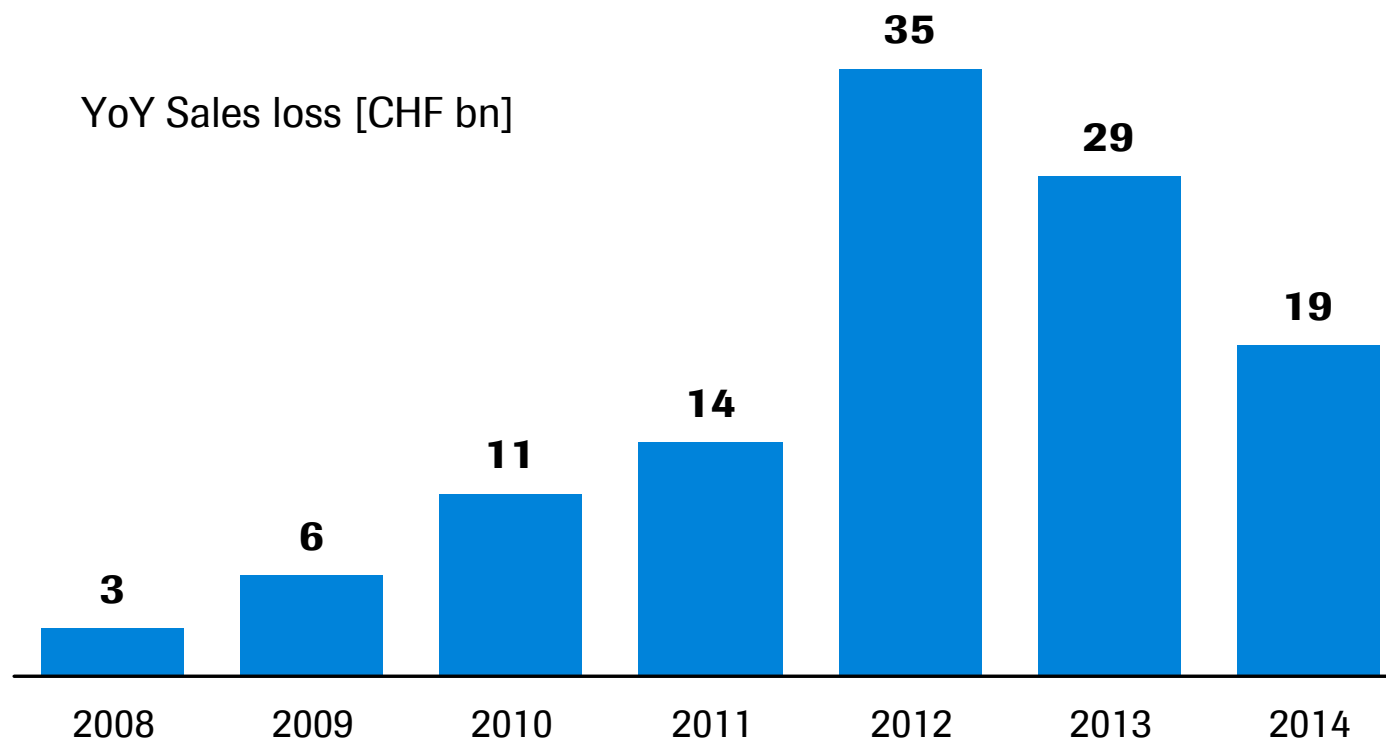
**EU:** legal and regulatory hurdles likely to remain high for biosimilars

**ROW/EM:** investment in countries with strong IP regulations (China)

Brand awareness important

# Patent expiries of large brands 2008-2014

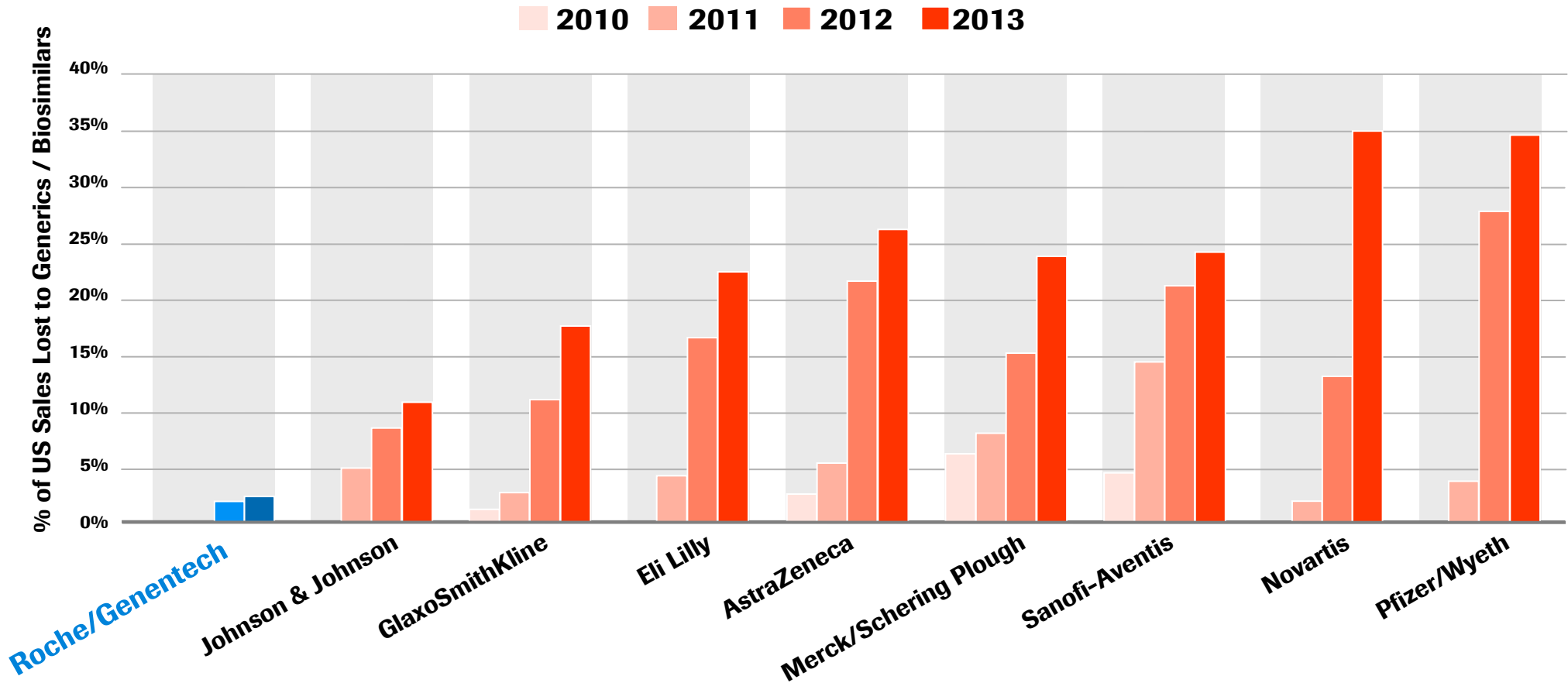
*"Oxygen for innovation" CHF >100 bn*



Product Examples  
(> 3 bn CHF each)

- Prevacid
- Aricept
- Lipitor
- Diovan
- Cymbalta
- Nexium
- Cozaar
- Plavix
- Enbrel
- Epogen
- MabThera
- Taxotere
- Seretide
- Singulair
- Procrit
- Celebrex
- Zyprexa
- LovenoX

# Roche: Limited exposure to patent expiries

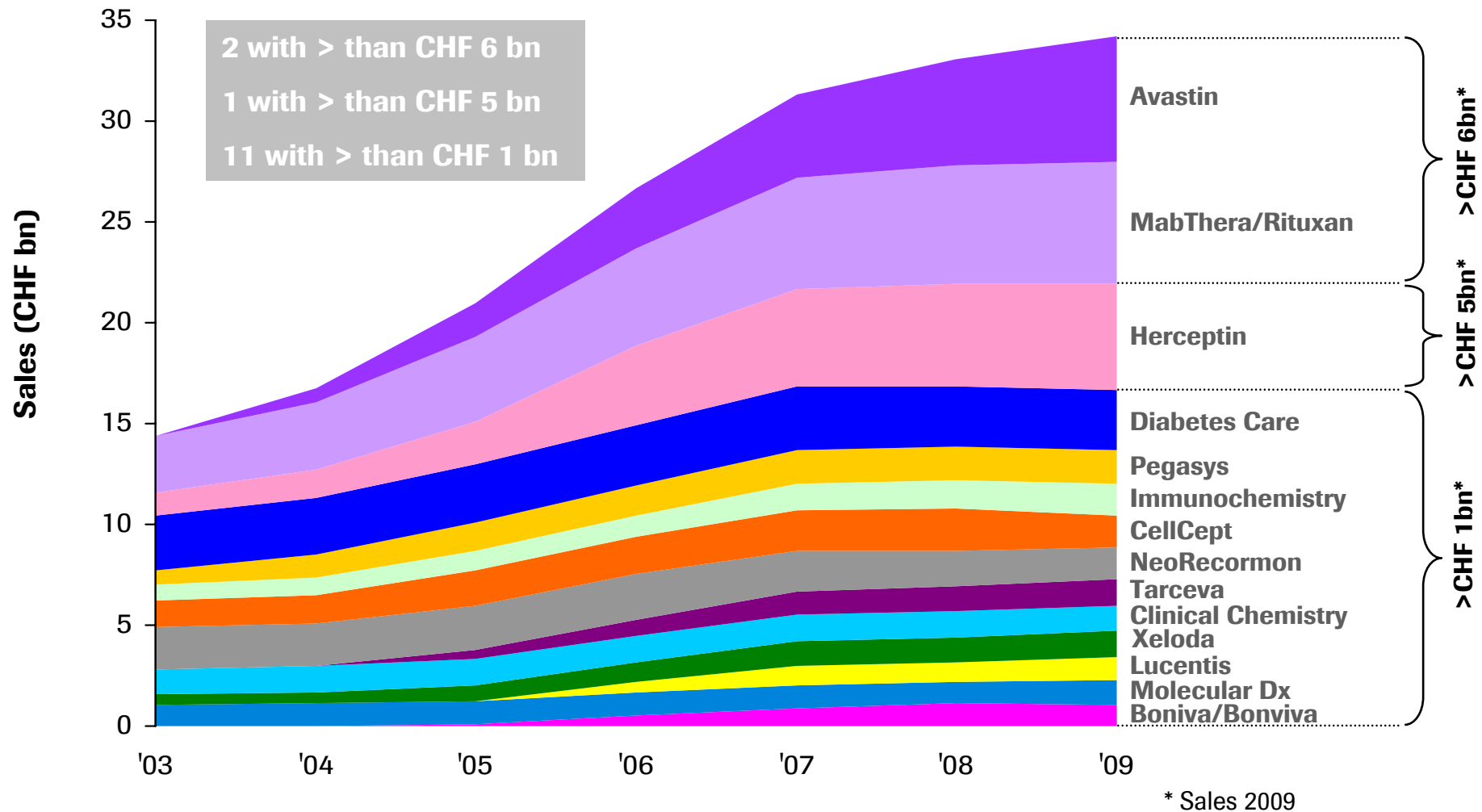


% Sales Lost calculated by subtracting given year sales ('10, '11, '12, '13) from full year sales from year prior to LOE.  
 Data excludes sales lost impact of products with LOE prior to 2010.  
 Source: Evaluate Pharma



# Key Pharmaceuticals & Diagnostics products

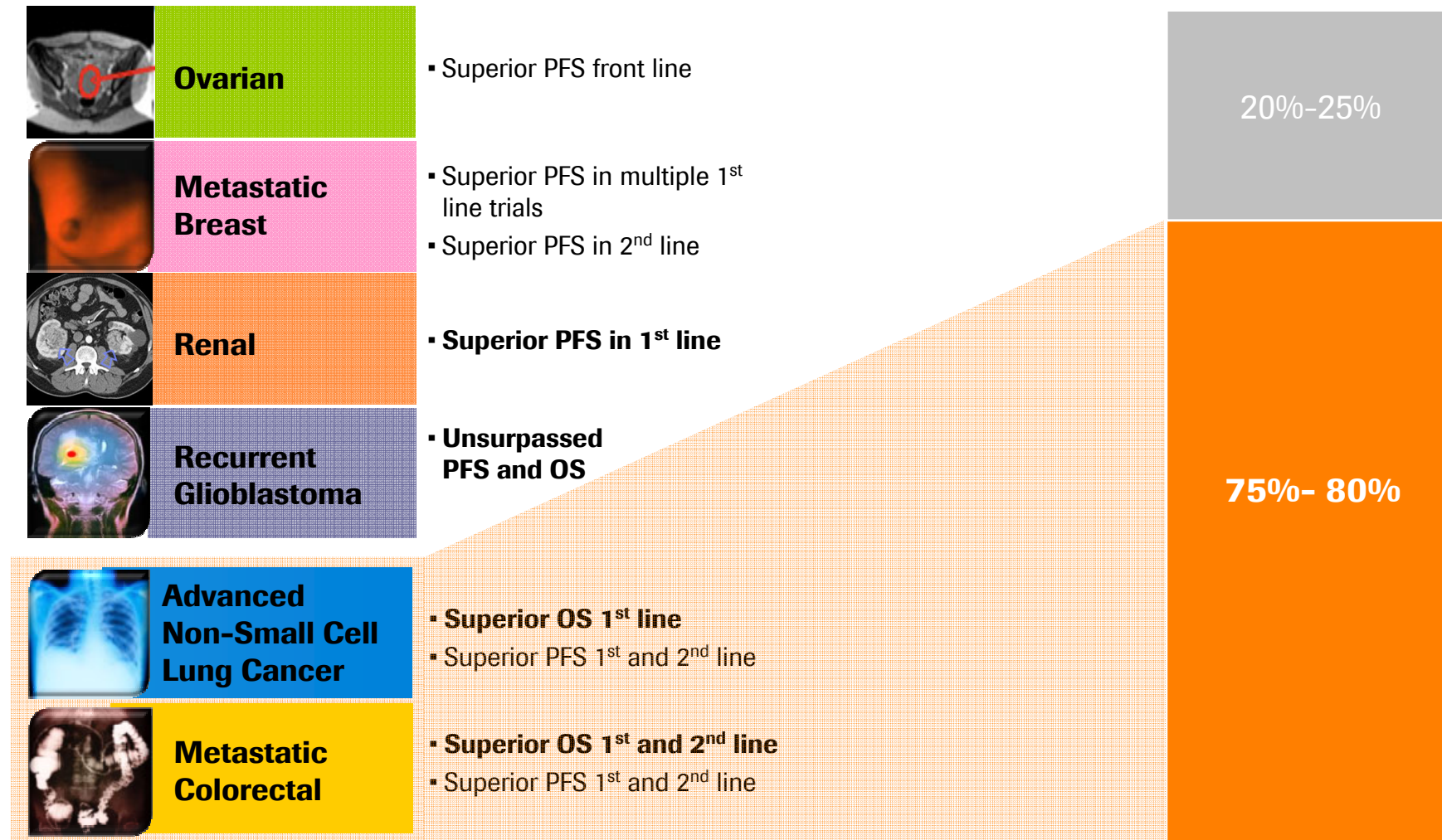
## *A risk-diversified portfolio of drugs and BUs*



# Avastin: Portfolio within a portfolio

## *Key treatment option in multiple tumor types*

### 2009 Sales



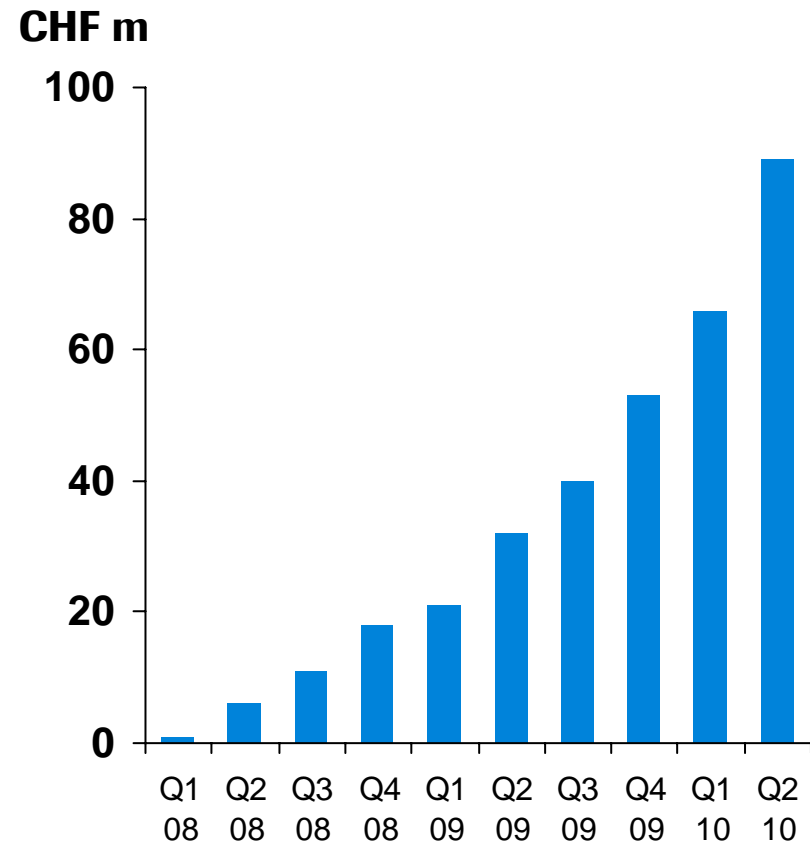
# Actemra/RoActemra

## *Building new pillar*

- Launched in ~50 countries so far
- Uptake in Japan remains strong
- In US after only 5 months, Actemra already prescribed by more than 50% of rheumatologists
- US patient share constantly increasing (currently 3-6% following anti-TNFs)

**Actemra vs Humira H2H trial**  
Enrolling patients

Actemra/RoActemra quarterly sales

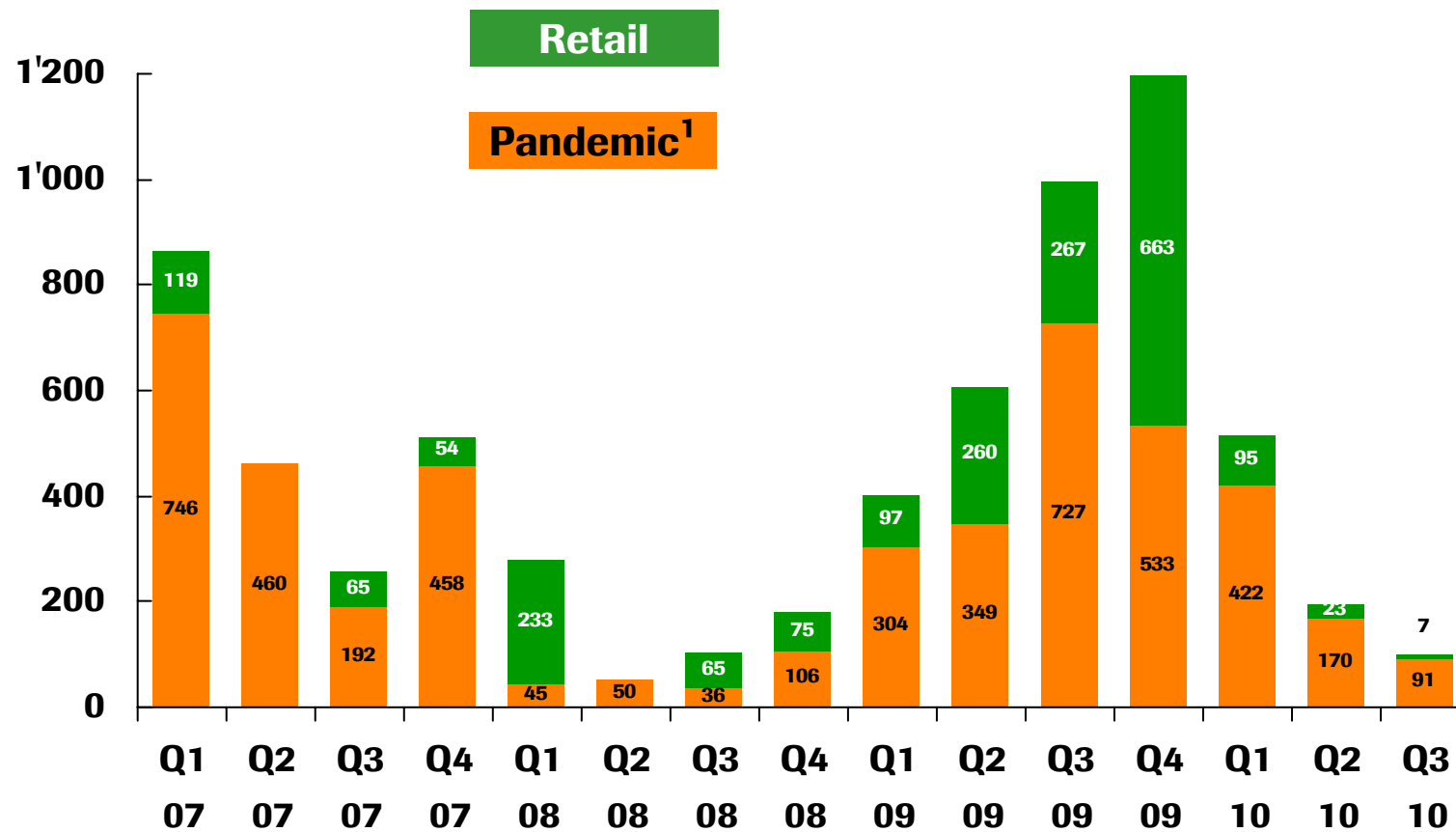




# Tamiflu

## *Sales at normalized levels*

Tamiflu quarterly sales (CHF m)



<sup>1</sup>Governmental & Corporate

# Roche

## *Acting from a position of strength*

- Protection of current portfolio:
  - long patent protection
  - hurdles for biosimilars
- Diversified portfolio; 14 franchises with >CHF 1 bn sales
- Significant opportunities for Avastin based on approved indications
- Growth in emerging markets

**A position of strength**

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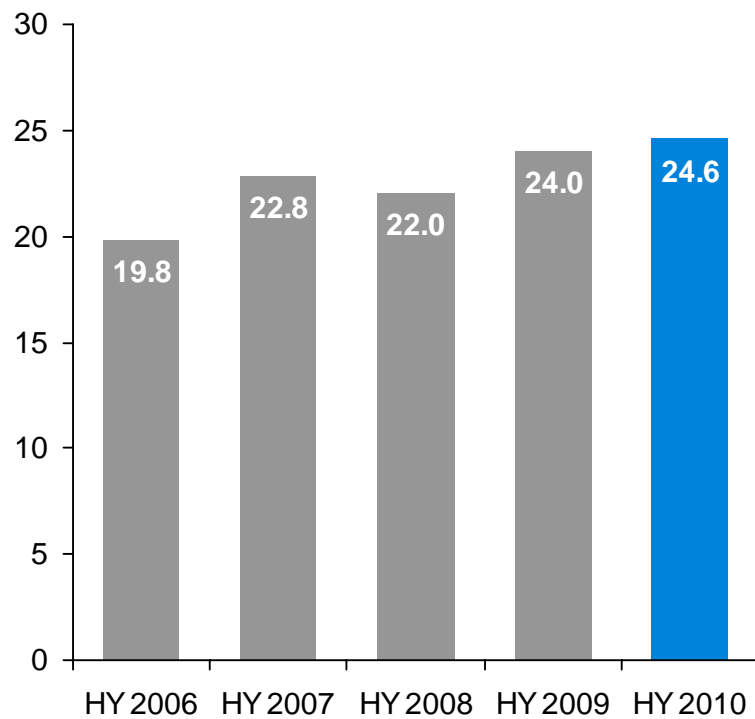
**Operational Excellence – adapting to a changing environment**

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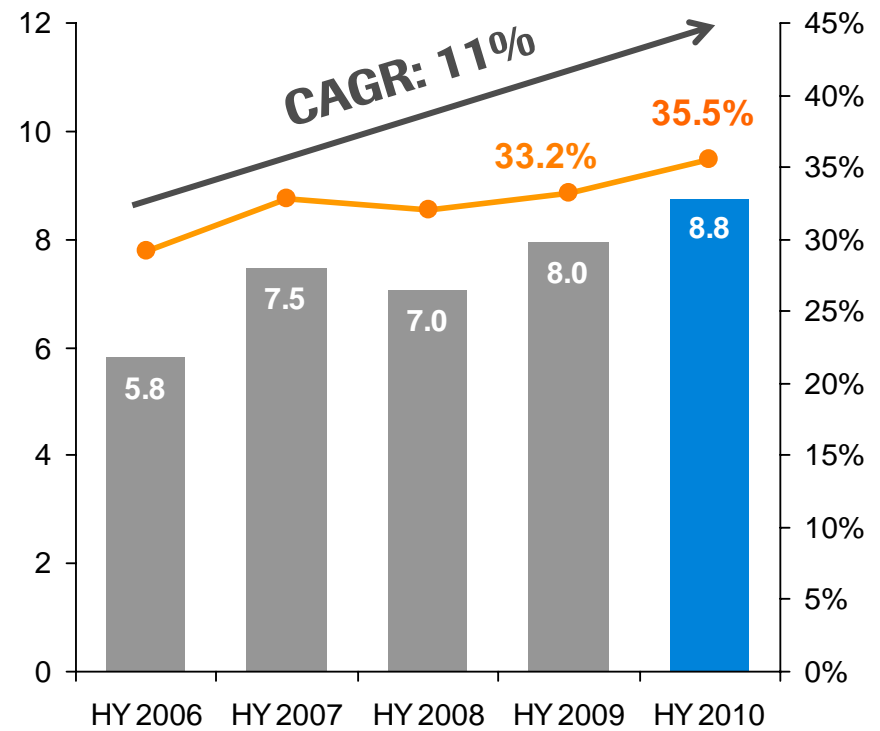
**Continued focus on innovation**

# Continuous growth in sales and margin

## Group sales (CHF bn)



## Operating profit<sup>1</sup> (CHF bn) and margin



<sup>1</sup> before exceptional items

# Roche's response to new environment: Operational Excellence

## Position of strength

- No major patent expiries mid-term
- Strong position in biologics
- High profitability and cashflow

## Challenging environment

- Pricing pressure US and Europe
- Increasing regulatory hurdles

## Continued focus on innovation

- Up to 14 late-stage assets
- Q4: 10 clinical trials reporting

## Operational Excellence

- Focus on investments that will drive innovation
- Protect profitability

**Communication on measures before year-end**

# Roche's response to new environment

## *Operational excellence initiative*

### Objectives

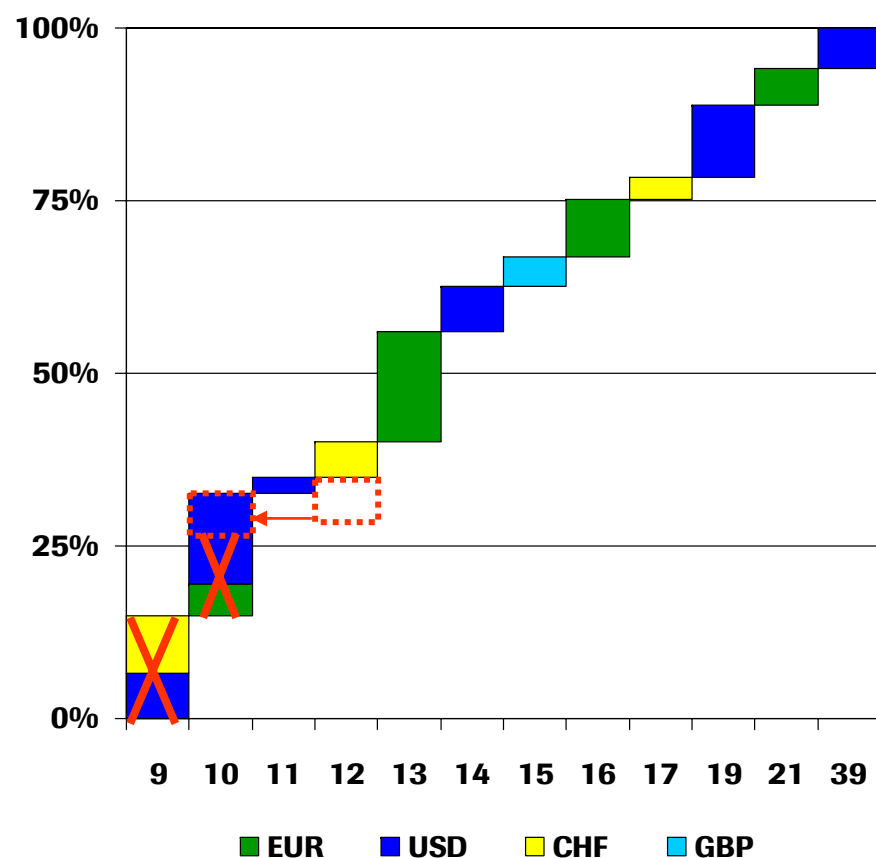
- protect our profitability and safeguard financial flexibility
- adapt cost structure while sustaining innovation leadership
- focus our resources towards investments that will drive innovation

### Scope and timeline

- Group-wide
- measures decided before end of the year
- implementation in 2011 and 2012

# Early debt redemption of USD 2.5 bn note due 2012

## *33% of Genentech transaction related debt repaid by September 2010*



- Exercise of call option on 9 September 2010 to redeem USD 2.5 bn notes originally due 2012
- Repayment of USD 3.0 bn and EUR 1.5 bn floating rate notes in Q1/2010
- Of the CHF 48.2 bn bonds and notes issued to finance the Genentech transaction, cumulative 15.7 bn (33%) will have been repaid as per September 2010 <sup>1</sup>
- Outlook 2010: USD 0.5 bn 'Genentech legacy' note repayment at maturity in July 2010

1) Original net proceeds in CHF

**A position of strength**

**Operational Excellence – adapting to a changing environment**

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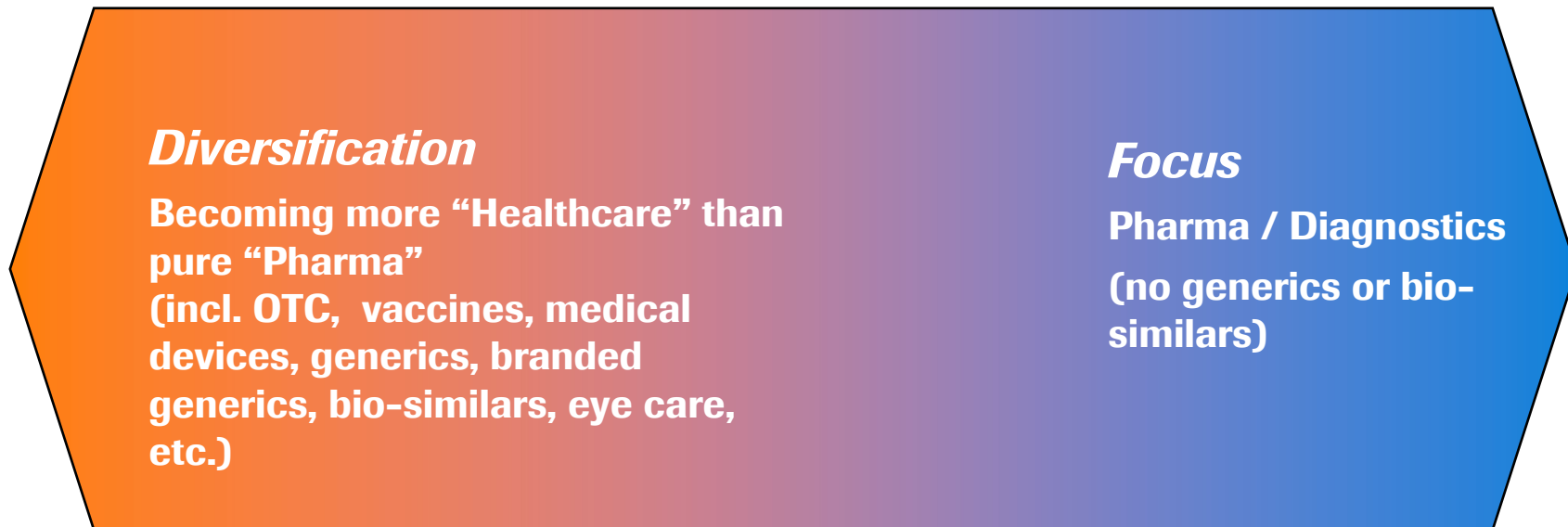
**Continued focus on innovation**

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# Competitors' strategies to address the trends

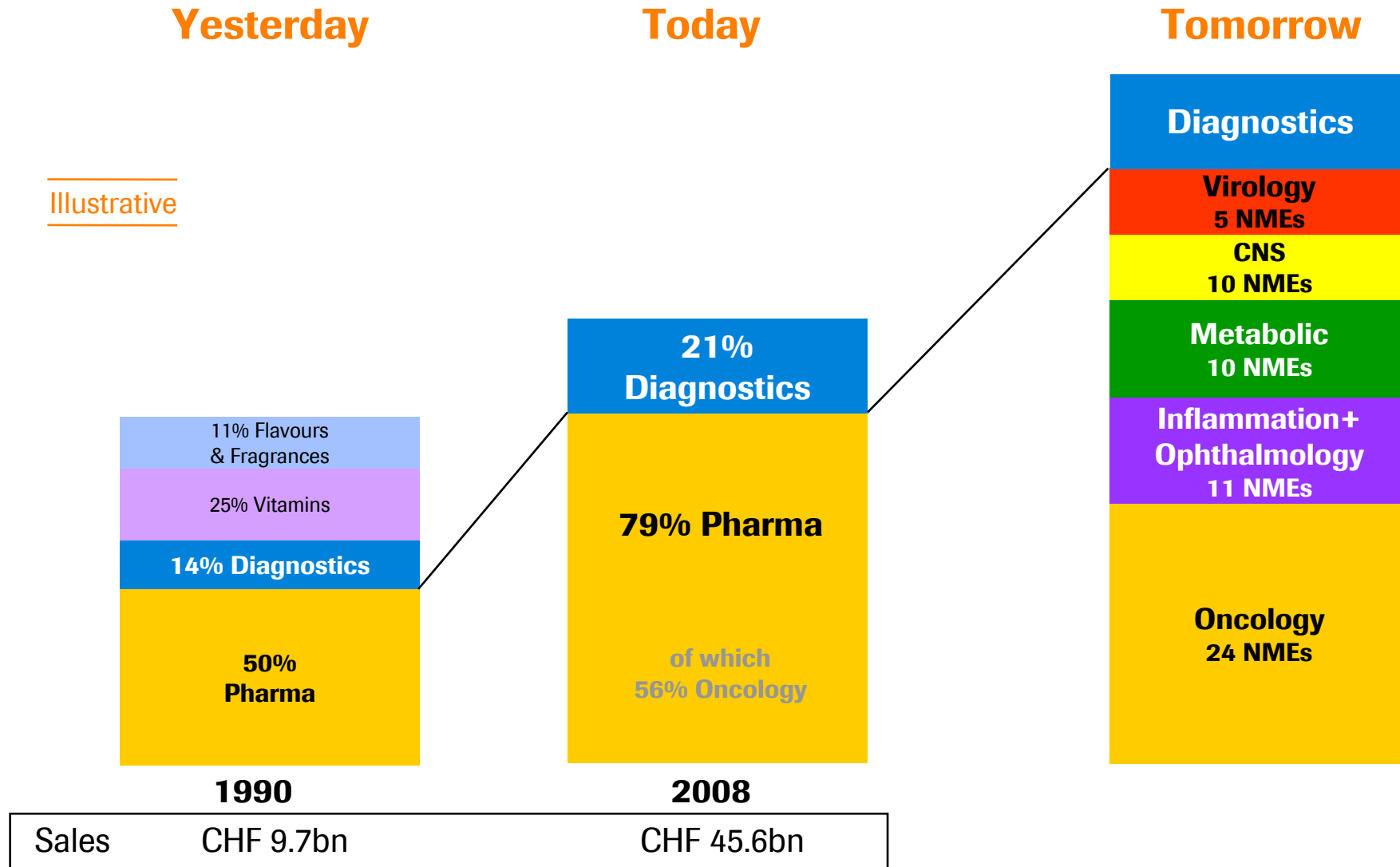
## *Two distinctly different groups emerging*



**Roche**

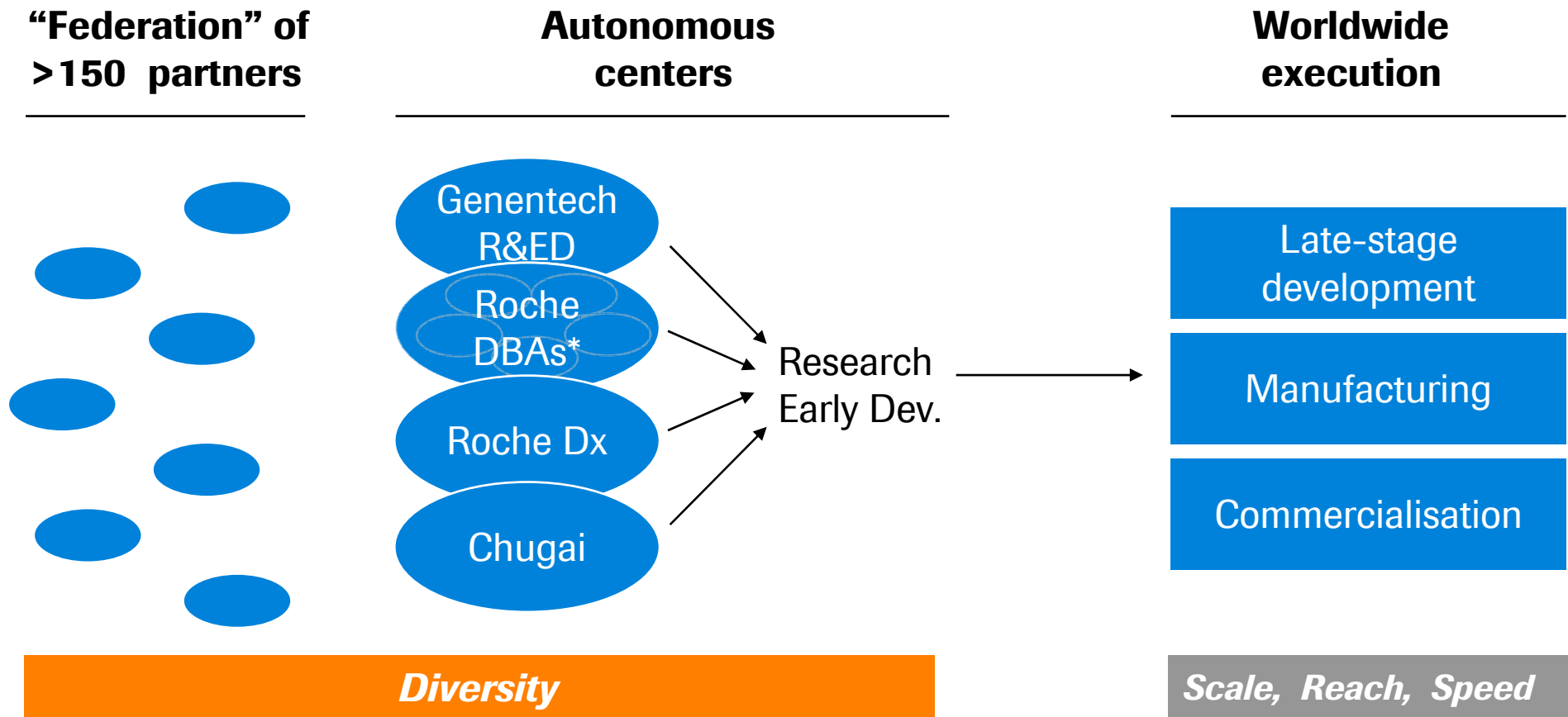
# Strategy

## *Broadening the portfolio with high value franchises*



# Our Distinctiveness

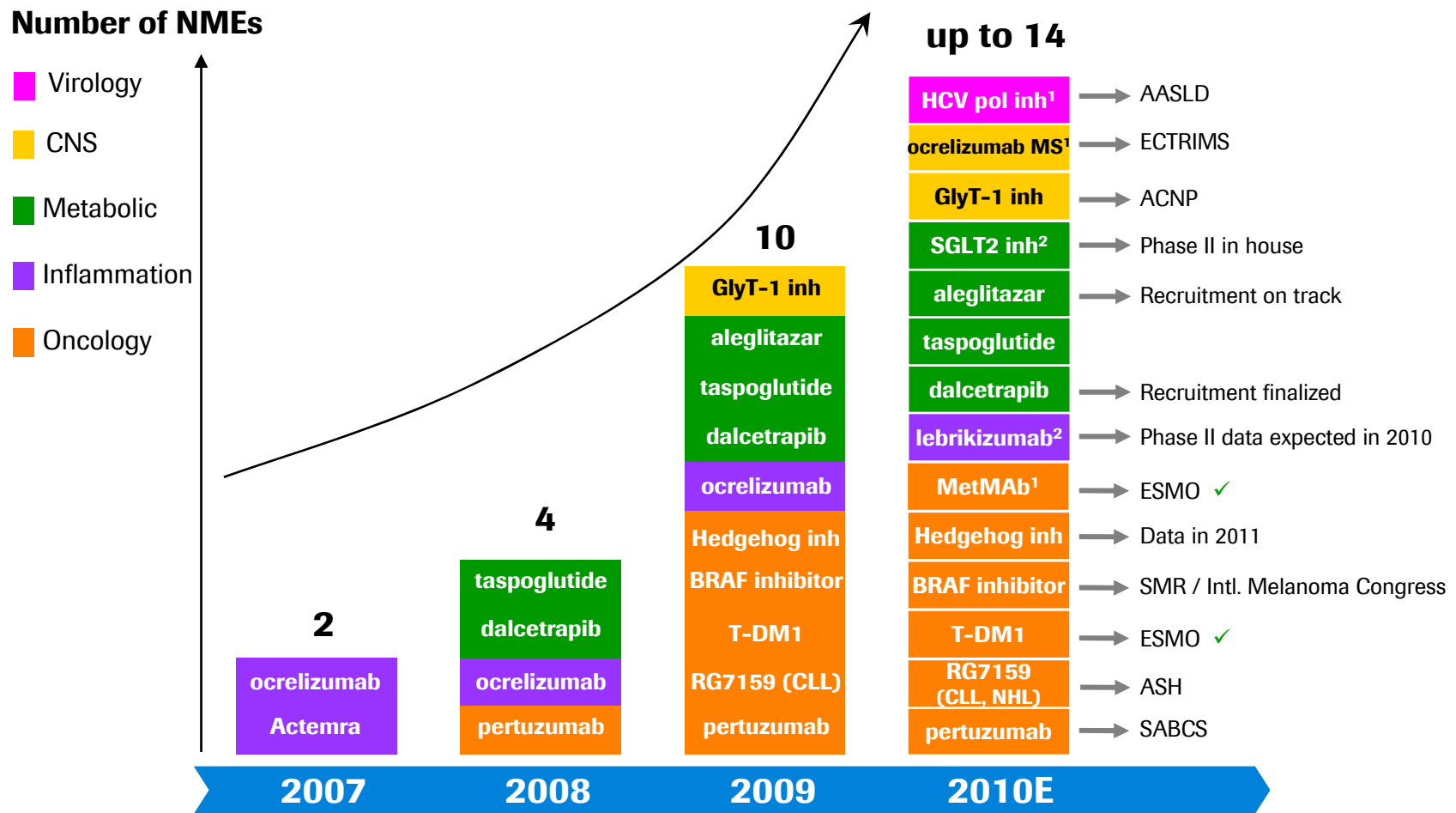
## *Diversity of approaches fueling global scale and reach*



\* DBA: Disease Biology Areas

# Late-stage pipeline progressing well

## *Extensive clinical data by year-end*



<sup>1</sup> LIP decision made, phase III pending; <sup>2</sup> LIP and phase III decision pending

# Our strategic franchises

*Focus on areas with high unmet medical need*

## CNS

High unmet medical need - high risk/high reward  
“The new oncology?”

## Metabolism

Only dalcetrapib targets primary care; aleglitazar: specialty product. High internal hurdles for phase III decisions.

## Virology

Focus on hepatitis; existing infrastructure to launch new products.

## Inflammation

RA biologics: area of high growth – Actemra strongly positioned

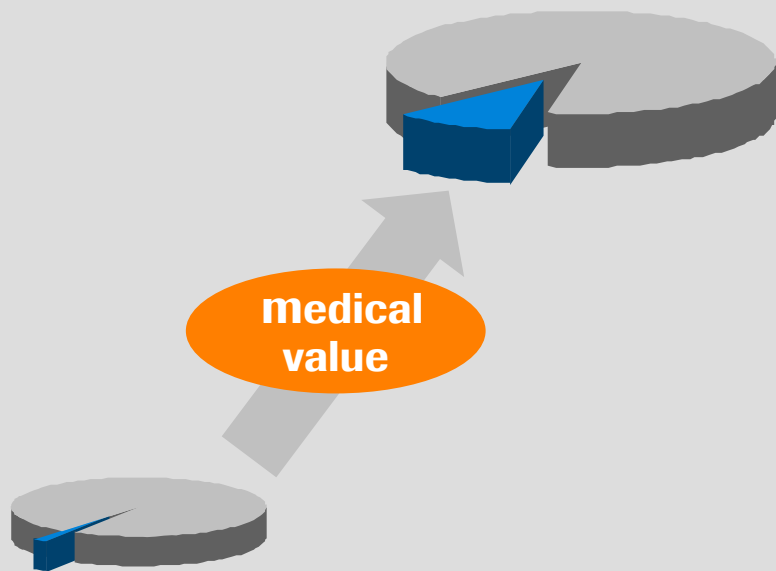
## Oncology

Leader in oncology with strong pipeline-Regulatory requirements evolving, raising the bar for new products (including competition)

# Diagnostics

*Continued high growth driven by need for medical value*

## Potential to improve healthcare efficiency



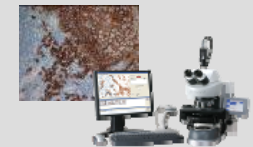
IVD <2 % total worldwide healthcare spend  
Influences >60 % of critical decision making

## Innovative tests in areas of medical need

Testing efficiency



**Patch pump**  
diabetes care



**Digital Pathology**  
tissue analysis

Diagnosis



**MRSA**  
screening



**HPV**  
early diagnosis

Companion Diagnostics



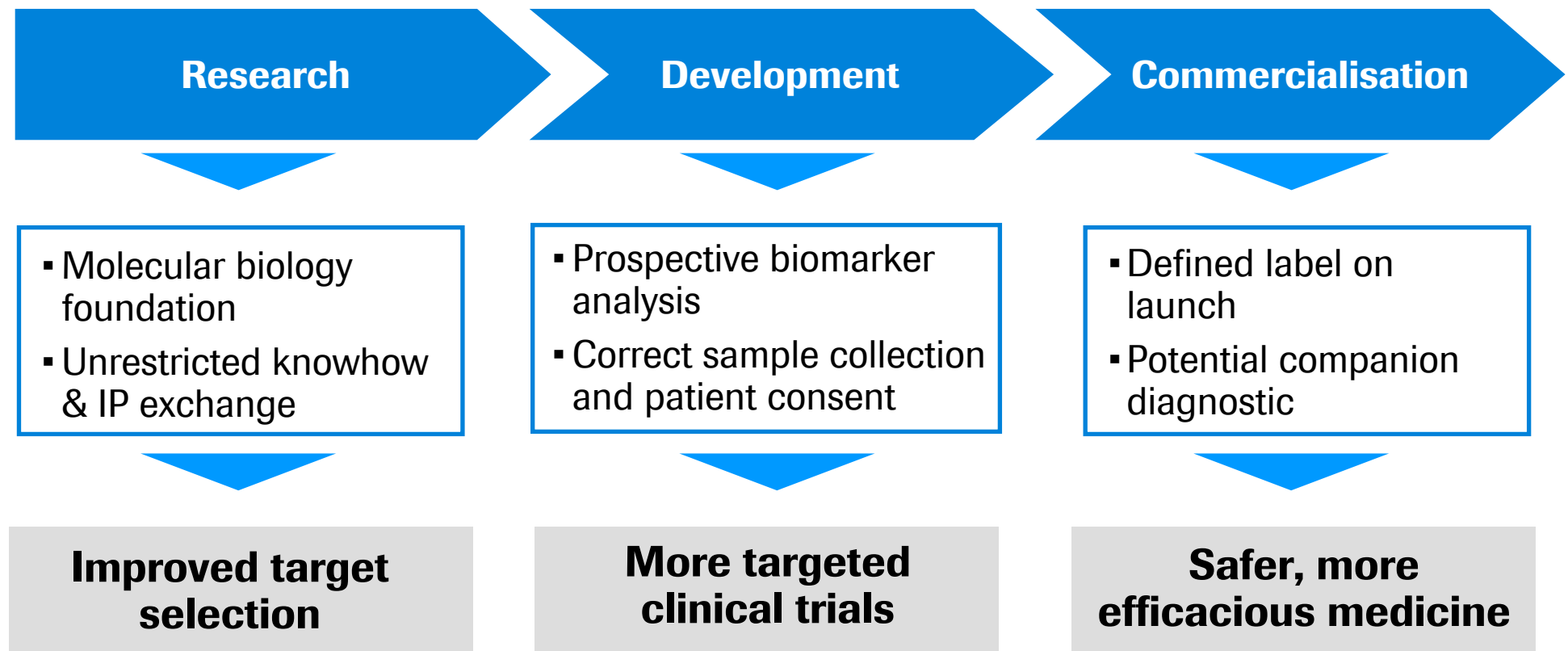
**dual HER2**  
protein & gene



**BRAF test**  
patient selection

# Personalised Healthcare to deliver medical value

## *Leveraging Pharma & Diagnostics from discovery to commercialisation*



## Outlook for 2010: on track to achieve the goals

<b>Sales growth (in LC)</b>	Group & Pharma (excl. Tamiflu): mid single-digit Diagnostics: significantly above market
<b>Synergies</b>	2010: CHF 800 m 2011: CHF 1,000 m
<b>R&amp;D investment</b>	Slightly below 2009 level
<b>Core EPS growth (in LC)</b>	Double-digit
<b>Debt</b>	2010: 33% reduction (revised from 25%) 2015: Aim to return to net cash position
<b>3 yr Dividend outlook</b>	Maintained (as announced in 2008)*

Barring unforeseen events;

**Total Tamiflu sales of up to CHF 1 bn assumed for 2010;** LC=Local Currency

\* Continuous increase in dividend pay-out ratio over the period 2008-2010



## The Roche advantages

- **We do not sacrifice our long-term future by short-term cost cutting: innovation remains key !**
- **We have established an entrepreneurial model for our R&D – setup**
- **We are preparing for fundamental changes in the healthcare environment**

**Roche delivering now – but still investing into the future!**



*We Innovate Healthcare*