Roche: Committed to innovation and profitable growth

Dr. Alan Hippe, CFO Roche

Frankfurt, January 2012
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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;
5. uncertainties in the discovery, development or marketing of new products or new uses of existing products, including without limitation negative results of clinical trials or research projects, unexpected side-effects of pipeline or marketed products;
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.

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Financial performance

Challenges and answers

Strong position
## HY 2011: Group performance

**Core EPS growth +10%\(^1\)**

<table>
<thead>
<tr>
<th>CHF m</th>
<th>2010</th>
<th>2011</th>
<th>%Change</th>
<th>CHF</th>
<th>LC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>24,636</td>
<td>21,671</td>
<td>-12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Core operating profit</td>
<td>9,159</td>
<td>8,251</td>
<td>-10</td>
<td>+5</td>
<td></td>
</tr>
<tr>
<td>as % of sales</td>
<td>37.2</td>
<td>38.1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Core net income</td>
<td>6,062</td>
<td>5,821</td>
<td>-4</td>
<td>+11</td>
<td></td>
</tr>
<tr>
<td>as % of sales</td>
<td>24.6</td>
<td>26.9</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attributable to Roche shareholders</td>
<td>5,965</td>
<td>5,697</td>
<td>-4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Core EPS (CHF)</td>
<td>6.95</td>
<td>6.68</td>
<td>-4</td>
<td>+10</td>
<td></td>
</tr>
<tr>
<td>IFRS net income</td>
<td>5,565</td>
<td>5,259</td>
<td>-5</td>
<td>+10</td>
<td></td>
</tr>
<tr>
<td>as % of sales</td>
<td>22.6</td>
<td>24.3</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^1\) local currency
## YTD Sept 2011: Group sales

**Supporting full-year guidance, strong currency impact**

<table>
<thead>
<tr>
<th>CHF bn</th>
<th>2010</th>
<th>2011</th>
<th>change in %</th>
<th>Excluding Tamiflu¹</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pharmaceuticals Division</strong></td>
<td>28.4</td>
<td>24.4</td>
<td>-14</td>
<td>-1</td>
</tr>
<tr>
<td><strong>Diagnostics Division</strong></td>
<td>7.7</td>
<td>7.1</td>
<td>-8</td>
<td>+6</td>
</tr>
<tr>
<td><strong>Roche Group</strong></td>
<td>35.3</td>
<td>31.5</td>
<td>-13</td>
<td>0</td>
</tr>
</tbody>
</table>

¹ at Constant Exchange Rates, CER (average full year 2010)
HY 2011: Core operating profit development

Profit growth driven by productivity improvements

- US healthcare reform incl. excise tax
- EU austerity measures
- Japan price cuts 2010

- Tamiflu Avastin US/WE CellCept US/WE Boniva US/WE sales
- Profit growth underlying business
- Cost savings OpEx/ GNE integration

8'834

-367

9'277

Core Op. Profit HY10

Core Op. Profit HY11

@ FY10 Fx rates

@ FY10 Fx rates

+5%

+950

+584

+724

-367

-724
Continuous improvement on cash flow and profitability over the years

**Group core operating profit (CHF bn) and margin**

- HY 2008: 7.6
- HY 2009: 8.4
- HY 2010: 9.2
- HY 2011: 8.3

Margins:
- HY 2008: 34.7%
- HY 2009: 35.0%
- HY 2010: 37.2%
- HY 2011: 38.1%

**Group operating free cash flow (CHF bn) and margin**

- HY 2008: 4.8
- HY 2009: 6.8
- HY 2010: 6.4
- HY 2011: 6.9

Margins:
- HY 2008: 21.8%
- HY 2009: 28.2%
- HY 2010: 26.1%
- HY 2011: 31.6%

1 local currency
Roche: Aiming for a sustainable net debt leverage of 0-15%

Source: Thompson Datastream; Bloomberg (May 23; 2011); BCG analysis
Attractive dividend payout ratio

Average yearly dividend growth (2004-2010): 22%

Pay-out ratio calculated as dividend per share divided by core earnings per share (diluted)
Financial performance

Challenges and answers

Strong position
Roche: Focused on medically differentiated therapies
R&D productivity of Pharma industry

Average financial returns\(^1\) on R&D falling to critical level

Return on R&D investment

Cost of Capital: 8\%-10\%

\(^1\) Different methodologies (e.g. IRR, economic returns)

Sources: Bernstein Research 2011, McKinsey 2011, KPMG 2011, Deloitte 2011, Roche analysis; Different methodologies!
R&D productivity
Excellence in science key lever to reduce attrition

Industry success rate 2005-2009

- Understanding of disease biology
- Leveraging Personalized Healthcare - stratify patient population early on
- Rigorous decision making – transition only most promising projects

Major decision points

Industry: 4%
Roche: 9%

Source: Industry success rates - Linda Martin, KMR, Bernstein R&D conference 2011
Roche – publically available data, BCG analysis
R&D allocation
*Mix of qualitative and quantitative factors*

Research & Early Development
- Top down
  - Annual budget allocation
  - Number of phase II transitions expected

Late Stage Development
- Project driven
  - Unmet medical need
  - Market potential
  - Efficient development
  - Probability of technical success
Transform and improve how we develop medicines

Reduce costs of late-stage development programs

- **Increase success rate**
  - Maintain a high bar for transition to late-stage development: first- or best-in-class
  - Reduce attrition/increase probability of success with Personalised Healthcare

- **Improve efficiency**
  - Less investigational sites per trial: focus on major active sites
  - Reduce trial complexity: focus on relevant trial endpoints
  - Enhance competition amongst CROs: reduce cost, but preserve quality
  - Transfer some activities to lower cost sites (e.g. from Nutley to India or Canada)

- **Innovate our development model**
  - Leverage new technologies (e.g. IT solutions)
  - More efficient ways to manage and access data
Personalised Healthcare - benefit for all stakeholders, including the industry

Today

- Reduced Patient pool
- Higher probability of success

Benefit from patient stratification

- Lower development costs
- Time to market
- Pricing power

Future

- Increased market share
Roche strategy for post-patent biologics marketplace

*Actively pursuing multiple strategies*

| Innovate       | Re-define the standard of care  
Mode of administration, combination therapies and new drugs |
|---------------|--------------------------------|
| Protect       | Protect high standards  
Enforce efficacy and safety standards, defend intellectual property |
| Expand        | Act to expand patient access in emerging markets  
Change from global pricing to tiered pricing, including 2nd brand |
Innovate and re-shape biologics market
HER2-positive breast cancer

mBC: metastatic breast cancer; BC breast cancer
Timelines refer to the expected dates of first filing
Financial performance

Challenges and answers

Strong position
### P&L structure reflecting innovation based strategy

**Peer group core operating profit margin 2010**

<table>
<thead>
<tr>
<th>R&amp;D % sales</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Eli Lilly</td>
<td>22%</td>
<td></td>
</tr>
<tr>
<td>Roche</td>
<td>19%</td>
<td></td>
</tr>
<tr>
<td>Merck</td>
<td>18%</td>
<td></td>
</tr>
<tr>
<td>Novartis</td>
<td>16%</td>
<td></td>
</tr>
<tr>
<td>Sanofi</td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td>Pfizer</td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td>GSK</td>
<td>14%</td>
<td></td>
</tr>
<tr>
<td>Astra</td>
<td>13%</td>
<td></td>
</tr>
<tr>
<td>JNJ</td>
<td>11%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>M&amp;D+G&amp;A % sales</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GSK</td>
<td>33%</td>
</tr>
<tr>
<td>JNJ</td>
<td>32%</td>
</tr>
<tr>
<td>Eli Lilly</td>
<td>32%</td>
</tr>
<tr>
<td>Novartis</td>
<td>31%</td>
</tr>
<tr>
<td>Astra</td>
<td>29%</td>
</tr>
<tr>
<td>Pfizer</td>
<td>29%</td>
</tr>
<tr>
<td>Merck</td>
<td>29%</td>
</tr>
<tr>
<td>Sanofi</td>
<td>25%</td>
</tr>
<tr>
<td>Roche</td>
<td>23%</td>
</tr>
</tbody>
</table>

FY 2010 figures; restated to a core basis based on publicly available information

1. Pfizer: Non-core items in CoS
2. Eli Lilly: 8%p. lower CoS ratio vs. Roche. Not feasible to judge if definition of Lilly’s CoS same as Roche’s
3. JNJ: No adjustments feasible as no details are disclosed.
## Roche: Staying focused on Prescription and Diagnostics

<table>
<thead>
<tr>
<th></th>
<th>Rx&lt;sup&gt;1&lt;/sup&gt;</th>
<th>OTC</th>
<th>Vaccines</th>
<th>Animal Health</th>
<th>Generics</th>
<th>Biosimilars</th>
<th>Dx</th>
<th>Others</th>
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</thead>
<tbody>
<tr>
<td>Novartis</td>
<td>60%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Ophthalmology</td>
</tr>
<tr>
<td>Merck &amp; Co</td>
<td>90%</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Pfizer</td>
<td>87%</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>GSK</td>
<td>82%</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Sanofi Aventis</td>
<td>79%</td>
<td></td>
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<tr>
<td>Bayer</td>
<td>31%</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Crop/Material Science</td>
</tr>
<tr>
<td>Abbott</td>
<td>57%</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>Medical devices</td>
</tr>
<tr>
<td>J&amp;J</td>
<td>36%</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Medical devices</td>
</tr>
<tr>
<td>Eli Lilly</td>
<td>94%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Branded Gx Intention</td>
</tr>
<tr>
<td>AstraZeneca</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
<td>Branded Gx</td>
<td>Intention</td>
<td></td>
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</tr>
<tr>
<td>Roche</td>
<td>78%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amgen</td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BMS</td>
<td>100%</td>
<td></td>
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<td></td>
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<td></td>
</tr>
</tbody>
</table>

<sup>1</sup> As of 2010 sales

Source: FCMG; Company Annual Reports

[Table Note]:
- **Rx** = Active Business Unit
- **O** = Recent Transaction (post 2006)
- **Rx** = Recent Transaction New Business Area (post 2006)
**Roche: Focus on selected business/disease areas**

* Aim to play in the lead

<table>
<thead>
<tr>
<th>Business/Disease Area</th>
<th>Oncology</th>
<th>Inflammation/Autoimmune</th>
<th>Hepatitis</th>
<th>Macular/Retinal diseases</th>
<th>Biologics</th>
<th>Diagnostics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roche</td>
<td><img src="1" alt="1" /></td>
<td><img src="7" alt="7" /></td>
<td><img src="1" alt="1" /></td>
<td><img src="2" alt="2*" /></td>
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<tr>
<td>Novartis</td>
<td><img src="2" alt="2" /></td>
<td><img src="5" alt="5" /></td>
<td><img src="6" alt="6" /></td>
<td><img src="1" alt="1*" /></td>
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</tr>
<tr>
<td>Abbott</td>
<td><img src="1" alt="1" /></td>
<td><img src="4" alt="4" /></td>
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<td><img src="2" alt="2" /></td>
<td><img src="4" alt="4" /></td>
<td><img src="2" alt="2" /></td>
</tr>
<tr>
<td>Sanofi</td>
<td><img src="4" alt="4" /></td>
<td><img src="6" alt="6" /></td>
<td></td>
<td><img src="6" alt="6" /></td>
<td></td>
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</tr>
<tr>
<td>Pfizer</td>
<td><img src="6" alt="6" /></td>
<td><img src="2" alt="2" /></td>
<td><img src="7" alt="7" /></td>
<td><img src="8" alt="8" /></td>
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<td></td>
</tr>
<tr>
<td>Merck</td>
<td><img src="10" alt="10" /></td>
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<td><img src="3" alt="3" /></td>
<td><img src="3" alt="3" /></td>
<td><img src="9" alt="9" /></td>
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<tr>
<td>JNJ</td>
<td><img src="8" alt="8" /></td>
<td><img src="3" alt="3" /></td>
<td><img src="5" alt="5" /></td>
<td><img src="4" alt="4" /></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AstraZeneca</td>
<td><img src="5" alt="5" /></td>
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<tr>
<td>Amgen</td>
<td><img src="4" alt="4" /></td>
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<td><img src="2" alt="2" /></td>
<td></td>
</tr>
</tbody>
</table>

*Lucentis sold by Roche in US, by Novartis in RoW*

Sources: IMS MIDAS in PADD; For Diagnostic: Industry Analyst Report; *Lucentis sold by Roche in US, by Novartis in RoW*
Our delivery

Personalized Healthcare becoming reality

- T-DM1
  Metastatic breast cancer
  (HER-2 expression level)

- Pertuzumab
  Metastatic breast cancer
  (HER-2/3 expression level)

- Mericitabine¹
  Hepatitis C
  (HCV viral load, genotype)

- MetMAb¹
  Non-small cell lung cancer
  (MET status)

- Lebrikizumab¹
  Asthma
  (periostin level)

- Zelboraf
  Metastatic melanoma
  (BRAF V600E mutation)

¹ LIP decision made, phase III start pending
Portfolio outlook: expanding into selected therapeutic franchises

Larger
(> 1 bn)

Smaller
(up to ca 1 bn)

Zelboraf
vismodegib
pertuzumab
T-DM1
GA101
GlyT-1
dalcetrapib
ocrelizumab
MetMab
mericitabine
lebrizumab
alegitazar

Potential Launch Year

2011
2012
2013
2014
2015
2016

Non risk-adjusted
Efficiency improvements and long-term growth

**Track-record**

Core operating profit and margin

<table>
<thead>
<tr>
<th>CHF bn</th>
<th>HY 2008</th>
<th>HY 2009</th>
<th>HY 2010</th>
<th>HY 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.6</td>
<td>8.4</td>
<td>9.2</td>
<td>8.3</td>
<td></td>
</tr>
</tbody>
</table>

**Outlook**

**Profitability**

**FY 2011**
- Target increased to around 10%
- Core EPS growth*

**Growth**

**Potential NMEs filings in 2011**
- Zelboraf (metastatic melanoma)
- pertuzumab (1st l. HER2+ mBC)
- vismodegib (advanced BCC)

*in local currency
## Confirming outlook for 2011

**Continued strong business performance**

| **Sales growth (in LC)** | Group & Pharma (excl. Tamiflu): low single-digit  
Diagnostics: significantly above market |
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Genentech synergies</strong></td>
<td>2011+ : CHF 1.0 bn*</td>
</tr>
</tbody>
</table>
| **Operational Excellence savings** | 2011 : CHF 1.8 bn  
2012+ : CHF 2.4 bn |
| **Core EPS growth target (in LC)** | Around 10%                                                                      |
| **Dividend outlook**     | Grow in-line with Core EPS; maintain at least last year’s dividend in CHF      |

Barring unforeseen events; LC=Local Currency; * vs. 2010: CHF 0.8 bn
We Innovate Healthcare
HY 2011: Group core operating profit and margin

Strong margin increase over years

CHF m

Roche Group

2009 8'403
2010 9'159 (+5 %
2011 8'251 (-10 %)

% of sales

Diagnostics Division

2009 890
2010 1'171 (+5 %
2011 1'063 (-9 %)

Pharma Division

2009 7'650
2010 8'188 (+5 %
2011 7'385 (-10 %)

1 local currency