Committed to innovation and growth

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Roche Group

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2 legislative and regulatory developments and economic 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
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Our strategy

R&D productivity - general considerations

R&D allocation and governance at Roche

Continuous productivity improvements

Focus on cash and outlook
An increasingly challenging environment
Where do we go from here?

**Regulators**

*Medical benefit-risk ratio*
- Efficacy (clinical endpoints)
- Safety (‘zero’ tolerance)

**Payers**

*Economic benefit-cost ratio*
- Constrained funding capacity
- Demanding real outcome evidence

**Investors**

*Economic risk-return ratio*
- Declining Returns
- Declining Growth
Roche strategy: Focused on medically differentiated therapies

Regulators: Optimised benefit / risk ratio
Payors: Optimised benefit / cost ratio
Roche strategy: Leveraging Pharma & Diagnostics
Through-out discovery to market

Pharmaceuticals

Research

Unrestricted know-how and IP exchange

Development

More efficient development

Commercialisation

Faster adoption of PHC solutions (medicine and test)

Diagnostics

Research assay

Technically validated IVD assay

Clinically validated IVD assay

Research assay

Technically validated IVD assay

Clinically validated IVD assay
Roche strategy: Tailor made access options for high value products

Established Markets

Emerging Markets

Value based pricing

Tiered pricing

Universal access and coverage
- Negotiate prices for new medicines

Limited patient access
- Enable access to public funding
Our strategy

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R&D productivity of Pharma industry: average returns falling to critical levels

Different methodologies (e.g. IRR, economic returns)


1 Different methodologies (e.g. IRR, economic returns)
R&D productivity differs substantially among players

Average annual NME peak sales (2001-10)$^1$
US$ bn

$710 m Peak Sales (per $1 bn R&D)$

$165 m Peak Sales (per $1 bn R&D)$

Average annual R&D investment (1997-2006)$^1$
US$ bn

1 Peak sales and R&D calculated pro forma to account for major M&A
Source: EvaluatePharma; BCG analysis; Roche analysis
Implications of R&D productivity challenge

Segregation will continue as only true innovation will be rewarded

Willingness to pay for added value

Medical differentiation

- High differentiation
- True innovators
- Generics
- ‘Me-too’ players ??

No / limited differentiation
Our strategy

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Focus on cash and outlook
Solid margins with a high risk / high reward model

Core operating profit margin (%)\(^1\)

Branded pharma sales as % of Group\(^2\)

Source: Company reports, Roche analysis; \(^1\) Based on average of fiscal years 2009 - 2011 financials; \(^2\) Based on 2010 data
The P&L reflects Roche’s innovation based strategy
Low on Marketing, General and Administration

Source: Company reports, Roche analysis; Figures based on fiscal year 2011 financials
Return on R&D: Historically Roche has delivered

Required peak sales per NME (CHF bn)

Actual Launches 2001-2010

CHF 2.1 bn

Required performance to breakeven\(^1\), at actual R&D expenses (1996-2005)

Average # NMEs per year

\(^1\) Incl. recovery of cost of capital, Roche Pharma. Criteria includes: late stage portfolio, risk adjusted revenues, average profitability assumed, standard erosion curves
R&D productivity: Our plans tell us that we will also be delivering in the future

Required peak sales per NME (CHF bn)

Illustrative

Planned launches 2011-2016

Increasing R&D budget

Required performance to breakeven¹, at actual R&D expenses 2011 onwards

Average # NMEs per year

¹ Incl. recovery of cost of capital at planning exchange rates, Roche Pharma. Criteria includes: late stage portfolio, risk adjusted revenues, average profitability assumed, standard erosion curves
Roche R&D: Allocation of funds

- Decides overall ‘risk appetite’
- Sets total* budget by unit (Total CHF 8bn)
  - Invest proportionally more into R&D as compared to peers
  - Cap / keep R&D stable in view of the overall market risks

Corporate Executive Committee (CEC)

- Reviews allocation

- Approves LIP decisions

Diagnostics (CHF 0.9bn)
REDs (CHF 2.5bn)
Late stage (CHF 3.9bn)
Chugai (CHF 0.8bn) (arms length)

Oncology
Neuroscience
Immunology
Virology
Metabolism

* Refers to actual 2011 figures
Roche: R&D well balanced from a risk & disease point of view

Industry average probability of success – Phase 0 to Registration

Source: Bernstein Equity Research, Tufts University and Roche analysis
R&D spend: Balance between short and long term

R&D spend by phase

Invest for the future

~50%

Invest for the near term

~50%

Research/Discovery Phase 0 Phase 1 Phase 2 Phase 3 Filing Phase 4

Note: Based on 2012 budget
Our strategy

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Continuous productivity improvements

Focus on cash and outlook
Productivity improvements: Through Innovation AND continuous Efficiency programs

Illustrative return

Base + Increase success rate + Reduce time to market + "Innovation" = Efficiency + Innovation

Example: Optimise research at pRED

**Reduce complexity**
- Close R&D centres (Nutley)
- Co-locate management

**Optimise resource allocation**
- Increase investment in late stage
- Leverage support functions

**Refine infrastructure**
- Reduce infrastructure costs (support functions / site infrastructure)
- Unify sites for ‘non clinical safety and chemistry’

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*New Molecular Entities*

<table>
<thead>
<tr>
<th>Year</th>
<th>Phase I</th>
<th>Phase II</th>
<th>Phase III + Registration</th>
<th>HY 2012 before R&amp;D prioritisation</th>
<th>HY 2012 after R&amp;D prioritisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>35</td>
<td>36</td>
<td>47</td>
<td>23</td>
<td>38</td>
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<tr>
<td>2010</td>
<td>36</td>
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</tr>
<tr>
<td>2011</td>
<td>36</td>
<td>36</td>
<td>47</td>
<td>23</td>
<td>38</td>
</tr>
</tbody>
</table>

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*Note:* The image includes a map of Roche’s global operation with strategic sites and support centers indicated. The map is used to illustrate the geographical distribution of research and development sites, emphasizing the optimization of resource allocation and infrastructure refine.
Example Development: Productivity initiative in development

**Completed efficiency initiatives**

- Roche Genentech Integration
- Transactional Outsourcing

**Ongoing RETHINK D initiatives**

- Improve probability of technical success / reduce risk in trials readouts (ex: use predictive endpoints)
- Using modern tools to speed up processes and bring trials closer to patients (ex: collect data directly from patients etc.)

<table>
<thead>
<tr>
<th>Year</th>
<th>Jan 2010 Cost/LIP</th>
<th>2011 Cost/LIP</th>
<th>2012 Target Cost/LIP</th>
<th>2015 Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>-15%</td>
<td></td>
<td></td>
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</table>

LIP refers to Lifecycle Investment Point
Example: Roche Diabetes Care securing long-term profitability

- Restructure and consolidate R&D organisation
- "One Global Operations" structure
- Optimise M&D investments

CER = Constant Exchange Rates
Our strategy

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Continuous productivity improvements

Focus on cash and outlook
## High operating free cash flow and margin

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Group Operating Free Cash Flow (CHF bn)</th>
<th>Margin</th>
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<tbody>
<tr>
<td>HY 2008</td>
<td>4.81</td>
<td>21.8%</td>
</tr>
<tr>
<td>HY 2009</td>
<td>6.78</td>
<td>28.2%</td>
</tr>
<tr>
<td>HY 2010</td>
<td>6.43</td>
<td>26.1%</td>
</tr>
<tr>
<td>HY 2011</td>
<td>6.86</td>
<td>31.6%</td>
</tr>
<tr>
<td>HY 2012</td>
<td>7.17</td>
<td>32.0%</td>
</tr>
</tbody>
</table>

+CER=Constant Exchange Rates

+7% at CER
## Managing risks: Accounts receivables in S. Europe

<table>
<thead>
<tr>
<th>Country credit rating</th>
<th>Greece</th>
<th>Portugal</th>
<th>Italy</th>
<th>Spain</th>
<th>Southern European Countries</th>
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<tr>
<td>CC</td>
<td>205</td>
<td>194</td>
<td></td>
<td></td>
<td>1,543</td>
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<tr>
<td>BB</td>
<td>207</td>
<td>172</td>
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<td>2,021</td>
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<td>BBB+</td>
<td></td>
<td></td>
<td>708</td>
<td>805</td>
<td>850</td>
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<tr>
<td>A</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>-24%</td>
</tr>
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</table>

- **June 2012**
- **Dec 2011**
Credit Management & Receivables: Managing risk
Spain – learning from the past to reduce future risk

<table>
<thead>
<tr>
<th><strong>History</strong></th>
<th><strong>Action</strong></th>
<th><strong>Impact</strong></th>
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</thead>
<tbody>
<tr>
<td>AR balance mEUR</td>
<td>DSO – Public debt</td>
<td>AR balance mEUR</td>
</tr>
</tbody>
</table>

### History
- AR rose significantly with an increase in sales, plus bias of portfolio to hospital sector
- Growing delay of payments from public accounts
- No issues with private accounts

### Action
- Escalation of tools used, including
  - Individual regional account plans
  - Change of commercial policy (CoD)
  - Forfaiting (local banks and international funds)

### Impact
- Significant reduction in AR due to “Montoro Plan” (June 2012)
- Focus: avoid future build up
Continuous increase in dividends and pay-out ratio historically

Pay-out ratio calculated as dividend per share divided by core earnings per share (diluted)
Expanding into selected therapeutic franchises

<table>
<thead>
<tr>
<th>Larger (&gt; 1 bn)</th>
<th>Smaller (up to ~1 bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Perjeta</td>
<td>GA101</td>
</tr>
<tr>
<td>T-DM1</td>
<td>bitopertin</td>
</tr>
<tr>
<td></td>
<td>ocrelizumab</td>
</tr>
<tr>
<td></td>
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<td></td>
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<tr>
<td></td>
<td>mericitabine</td>
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<tr>
<td></td>
<td>lebrikizumab</td>
</tr>
</tbody>
</table>

Potential Filing Year
- 2012
- 2013
- 2014
- 2015
- 2016/17

LIP candidates
- 2012 target: 3 out of 5
- 2017 onwards

Non risk-adjusted
We will continue to show strong commitment to Innovation AND Efficiency.
Summary: Focus on innovation and growth

1. Strategic focus on innovation and driving Personalised Healthcare

2. Strong growth in Emerging Markets facilitated by innovative access models

3. Leading product pipeline providing value for the future
We Innovate Healthcare