

# EXHIBIT

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## Letter from the Chairman

Two very different sets of developments had a major impact on the Group's financial results for 2002. On the one hand, our core Pharmaceuticals and Diagnostics Divisions performed strongly, posting above-market growth rates and further increases in profitability. Gross cash flow reached a new record high. On the other, vigorous action to address significant unresolved issues from the past resulted in the Group's reporting a substantial net loss. Roche's financial condition nevertheless remains solid. At the Annual General Meeting the Board of Directors will propose that the dividend be increased by 12% to 1.45 Swiss francs per share and non-voting equity security (*Genussschein*).

While continuing with the successful expansion of our pharmaceuticals and diagnostics businesses, we also made it one of our primary objectives in 2002 to address a number of unresolved issues relating to the Vitamins and Fine Chemicals Division, ongoing litigation and the impact of the stock market situation on our financial assets. Last year we were able to resolve many of these challenges, giving us the flexibility and room for manoeuvre we need to strengthen our company in the long term. However, some of the measures adopted involved taking substantial one-time charges in our financial statements for 2002.

- The provisions recorded and announced last autumn for settling litigation, primarily with US customers, in the vitamin case were increased by 570 million to 1,770 million Swiss francs. We believe this amount will cover all outstanding claims by direct and indirect customers in the United States.
- While the merger of Nippon Roche and Chugai resulted in a net gain, this was offset by an impairment charge in connection with the sale of the Vitamins Division. The net effect of these two transactions was a loss of 1,064 million Swiss francs.
- The large equity holdings that earned significant returns for Roche in the 1990s involve risks that are making themselves felt in today's turbulent market environment. As a result of stock market developments over the past two years, the carrying value of our equity portfolio, which consists primarily of Swiss SMI securities, has declined sharply. In line with an anticipated change in International Financial Reporting Standards, we decided last year to

revise our accounting policy and recognise impairment losses on financial assets if the assets' market value remains at least 25% below original cost for a period of more than six months. As a result of this decision, accumulated unrealised investment losses totalling 5,192

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million Swiss francs as of the end of 2002 have been charged to income. Painful as the one-time impact of this measure is, it gives us the flexibility to allocate resources when and where they are needed for the strategic development of our operating businesses.

In the first half of 2002 we recorded a provision of 778 million Swiss francs in respect of a long-standing lawsuit involving Genentech. In June 2002 a California superior court jury awarded City of Hope Medical Center 500 million US dollars in additional royalties and punitive damages for Genentech's alleged breach of an agreement signed with City of Hope in 1976, that is, before Roche acquired an interest in

Genentech. Genentech has appealed the jury's verdict and damages award.

For the above reasons, Roche recorded a consolidated net loss of 4,026 million Swiss francs for 2002, despite the Group's strong operating performance.

Even after this corrective action, Roche remains solidly financed, with a ratio of equity to total assets of 40%. The earning power of the Group's core businesses is reflected by another year of strong gross cash flow, which in 2002 reached a record high of 7.7 billion Swiss francs.

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– Worldwide sales of Roche prescription medicines increased 10% in local currencies, well ahead of the global market average (7%), to almost 18 billion Swiss francs. This growth was driven mainly by our strong oncology portfolio, which last year surpassed the five-billion mark, with an additional boost coming from the integration of Chugai. We thus further extended our leadership in this key anticancer market. We also significantly strengthened our presence in virol-

ogy. Pegasys received marketing approval in the European Union and the United States. Pegasys combined with Copegus, Roche's proprietary ribavirin product, is currently the hepatitis C treatment with the highest response rate. Fuzeon, our novel anti-HIV medicine, marks a further milestone in the fight against AIDS, as the search for a cure goes on. Marketing applications for the product have been granted fast-track review status by the US and European authorities, and we anticipate positive decisions on both filings in the first quarter of 2003.

– The acquisition in 2002 of a majority interest in Chugai catapulted Roche from number 32 to number five in Japan. After an overwhelming majority of Chugai shareholders approved a merger of their company with Nippon Roche at the end of June and the antitrust authorities cleared the transaction, Chugai became a member of the Roche Group on 1 October 2002. Thanks to NeoRecormon (Roche) and Epogin (Chugai), we now control the global marketing rights to epoetin beta, a major anemia treatment, outside the United States. The smooth and seamless integration of Chugai in Japan will be of great importance for the future growth of our pharmaceuticals business. We now have the fourth-largest sales organisation to market Roche's established and future products in the world's second-largest pharmaceuticals market. Chugai can now draw on one of the biggest development organisations in the country and will help to further consolidate Roche's global number two position



in biotechnology. At the beginning of 2003 the new Chugai started restructuring its manufacturing and research organisations with the aim of eliminating duplication and capturing additional synergies. By the end of 2005 Chugai aims to achieve an operating profit margin of 20% (based on Japanese GAAP).

- 2002 was another successful year for Roche's Diagnostics Division, which recorded double-digit growth – further extending its lead over its competitors and outpacing the global in-vitro diagnostics market by a substantial margin. Sales by each business area and in each of the division's geographic regions grew ahead of the market. As a result, we are on the way to becoming the market leader in Japan, too. In February 2003, in a move aimed at strengthening our lead in diabetes care, we made a tender offer to acquire the Swiss medical device supplier Disetronic, the world's second-biggest maker of insulin pumps. Pioneering development efforts at Roche Diagnostics are also helping to secure a leadership position for the division in the very dynamic market for tools that translate clinical data into actionable health information.
- We are especially pleased with the continued increase in profitability. Our margins show a steady improvement in our return on sales of prescription medicines. This has been driven largely by sales of Roche prescription drugs, which last year generated an operating profit margin of 25%. In 2002 Genentech's operating profit margin increased more than nine percentage points to 11.8%. We are thus moving steadily

towards our medium-term goal of achieving an operating profit margin for Pharmaceuticals that approaches 25%. The Diagnostics Division's operating profit margin also improved again, from 14.4% to 15.6%, and is thus on track to reach our medium-term target of 20%.

- We again increased our EBITDA margin, the most informative benchmark for comparing companies' profitability. The margin for Diagnostics is now 27.4%. That for Pharmaceuticals is 31%, which is high by industry standards.
- The R&D pipelines of our two core businesses are a solid basis for future growth. In 2002 we substantially expanded our Pharmaceuticals pipeline by advancing our own projects and signing more than 20 new licensing agreements as part of our targeted business development activities. The number of potential new medicines in phase II development has risen significantly since 2001. With over 100 medium and large projects, Roche Diagnostics boasts the broadest R&D pipeline in the industry.

This positive operating performance is the result of our strategy of focusing on our core competency – serving the high-value healthcare market.

I would also like to take this opportunity to express my appreciation to our employees, to whose skill, hard work and commitment these good results are mainly due.

Although economic conditions remained difficult in 2002, the Vitamins and Fine Chemicals Division maintained its market lead and, thanks

to substantial volume gains, posted a modest sales increase in local currencies. Following the announcement last spring of our intention to divest the Vitamins and Fine Chemicals Division, and after a careful review of the options, we sold the division to the Netherlands-based DSM group at the beginning of 2003. As an industry buyer, DSM offers complete familiarity with the division's businesses.

To facilitate comparisons with 2001, this year's Annual Report once again presents the Group's results on both a consolidated and an adjusted basis. The principles employed in compiling the adjusted figures, which exclude one-time special items and represent only continuing operations, have remained unchanged since 1999. A detailed explanation of these principles will be found on page 69.

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Excluding special items, net income totalled 3.8 billion Swiss francs, a decline of 17% from the previous year. A marked drop in net financial income and a higher tax charge, which reflects the fact that operating income now accounts for a higher proportion of total income than it has in the past,

were the two main factors for the decline. The appreciable fall in financial income, to 736 million Swiss francs, was due primarily to lower gains from equity investments as a result of negative developments on world financial markets. Against this background, the favourable terms on which Roche sold its final tranche of LabCorp shares deserves special mention.

Early this year Novartis announced that it had increased its holding in Roche to nearly one-third of the voting shares. The Roche Board of Directors and Executive Committee are convinced that continuing our company's independent course provides a solid basis for sustainable, long-term value growth. Maintaining Roche's clear strategic direction and developing businesses that continue to create value for all stakeholders – patients, employees and shareholders – remains our top priority.

By demerging the Vitamins and Fine Chemicals Division and acquiring a majority stake in Chugai, Roche has further strengthened its focus on pharmaceuticals and diagnostics and the synergies they can generate. The combination of these two innovative, high-tech businesses means that we are ideally positioned to pursue opportunities in tomorrow's healthcare market.

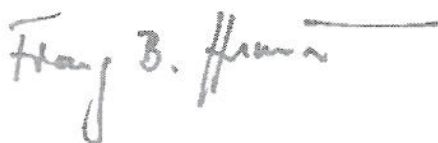
We expect to see further positive growth in 2003, with both Diagnostics and Pharmaceuticals contributing double-digit increases in sales and operating profit in local currencies, and we expect the operating profit margin for the Group as a whole to

remain stable. Given the volatility of financial and stock markets, it is impossible at present to predict the level of financial income in 2003. The measures Roche has initiated will give the Group greater financial flexibility.

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Our improved operating results, consolidated global leadership in oncology and in-vitro diagnostics and stronger R&D pipeline are confirmation that we are following the right strategy. Over the past few years we have steadily strengthened the Group and, by combining organic growth with complementary strategic moves, forged a strong position for ourselves in the healthcare sector. We intend to maintain this independent course.

Thanks to the profitability of its operating activities and its solid financial position and substantial liquid reserves, Roche has the strategic flexibility it needs to continue growing its businesses.



Franz B. Humer