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SCHEDULE 14A
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INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

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Roche

Investors/Analysts Conference

London

Diagnostics – Session 1

Q&A Session

Unidentified company representative

Welcome to Diagnostics sessions. We're happy to have you here. Quite a bit of interest.

From the floor

The question I'm trying to understand is what's going to happen to the pricing of the market for sequencing. It just seems to be that there is already over capacity and obviously there will be huge opportunities at some point in the future when you move into the clinic, so big volume uplift, but in the meantime, the pricing is going to come progressively down. So I'm just trying to understand if it was $13b, or 13 years and $3b and now it's $1,000 and it will be $500 and $200 and $100. I'm just trying to understand what's going to happen to the overall pricing and what the IP benefit of having the sequencing provides to your companion diagnostics effort and your pharma effort because it me it's almost as if you're buying $300m of EBIT which I'm sure you believe the synergies will grow a bit faster than it has done in Illumina to provide you with strategic capability to commercialise companion diagnostics in the future. In itself, the technology is over capacity meaning pricing is coming down very rapid. So I'm just trying to understand your view in terms of price, volume and therefore, sort of revenue and profit outlook for sequencing as an independent business.

Daniel O'Day

Sure, sure. So on the pricing side, I mean it's clear that pricing has come down significantly over the years as you mentioned. I don't think that will continue at the repetitive pace that it has in the past 10 years. I think we're really achieving an efficiency level in both the chemistry and the density of the chips that we're really getting to a level where I think the $1,000 mark and that mark is really going to be a market. I don't think we're going to see go down to $100 so to speak. So I think we're reaching, to a certain extent, the price limits in the technology.

It is an attractive margin today. Let me speak a little bit to your over capacity and to the volume aspect of things. I feel we're just starting to tap into the potential volume here. First, in the research setting, yes, some of the genome centres have sufficient capacity now, but with the launch of platforms like MiSeq I think there is tremendous opportunity to take this beyond some of the capacity constraints that go along with sending samples and things to large genome centres and bring it more into key cancer centre hospitals, other research labs. So I think the volume effect is still incredibly significant and I believe the penetration into research still has a lot to go in terms of the volume side of things.

Eventually, also in the mid-term and I don't think this will be, by the way, a black and white situation. One day it's in the research setting, the next day it's in a clinical setting. It's very much of a shade of grey and I also think in different countries, depending on the regulations, it will move more or less quickly into the diagnostic aspect. But today what's true is that there are very few patients around the world that are being sequenced as they enter into a cancer centre.

I mean if you go to the MDM into the world of [catarines], some of the key centres around the world, they are doing some sequencing for some patients and they're doing some limited sequencing. They're doing either 50 genomes or 100 genomes or 200 genome type panels. So we haven't begun to crack I think, the potential, as it goes into the clinical setting in the mid- to longer-term where we'll see, in my opinion, as you have more complex genetic variations being able to be acted upon, we'll see the volume increase and I believe we'll see it being routine practice in the future at cancer centres, just to use on example. There are many other disease states where it is used today in HLA and de-sequencing, in virology, genetic disorders. So I believe this momentum will increase.

Now also, the technology, and there is a price point, back to the price point, that is reasonable. That it is reasonable to expect that people will also use this in a clinical way and reasonably, if it's used in a way that's very connected with therapy intervention, I also believe that reimbursement will come in these countries with these patent applications as well.

So step one, deeper penetration into the research setting. Step two is really getting into the volume setting in the clinical arena and clinical field.

Sorry, there was an end to your question that I'm not I answered.

From the floor

Well no, that's very helpful.

Daniel O'Day

Okay.

From the floor

I guess at the moment you've got a scenario where there is bottlenecks to kind of get into the greater volume setting and with a competitor trying to catch up and gain volumes growing 18% where Illumina is at 60%, they're just trying to sort of find new methods and therefore, there isn't a sort of rational pricing structure today. Certainly it's lack of capacity. There's more supply than you can deal with capacity. You're kind of saying that price pressure will alleviate. You'll hit a price point at $1,000 or whatever it is based on the value of the sequence from a clinical perspective and you'll see stabilisation.

Daniel O'Day

Yes. Obviously Illumina has a lot more information on this than I do. I think this issue between supply and demand is a temporary one. It's not a permanent one. I think there is also logistics involved with sending samples around the world to these genome centres and other things and the closer we get the technology to the clinical sites, to the researchers to eventually the clinics, I don't have a concern about supply and demand in this area. I think there is tremendous demand that is untapped right now. That as the technology comes out on price points and availability, I have no doubt that it will continue to be this.

From the floor

Okay, and I just have one very quick second question.

Daniel O'Day

Yes sure.

From the floor

When it comes to FTC and ongoing collaborations, there is a general thinking, and we're just trying to understand, how many other deals Illumina has done with other

companies, which parts and certain parts of the market or the potential issues there and what overall it means from a FTC perspective?

So I understand from the conference call you talked about some of the complementary technologies but on the face of it we're looking at 60 plus, 15, a market share in the 70s now if the deal goes through which, on the face of it, is quite significant. In terms of just trying to understand what proportion do you feel the sales are at risk from an FTC perspective? What proportion of sales are at risk from collaborations having to split out?

Daniel O'Day

Yes, I mean I think at this stage we've started the regulatory filing process. Our feeling is that the competitor space is robust. That's our feeling. The process now needs to continue. I wouldn't want comment on any specific collaborations that Illumina has. I'm not the right person to comment about that. But from our perspective, we will now follow the regulatory review process and again quite confident that the regulatory space is robust to allow the process to continue.

From the floor

A couple of quick follow ups then. Just on the timing of that longer-term move into the clinic, that seems to be quite a long way ahead. It may be 10 years away until that comes to fruition. Is that something you're looking at? That would suggest that the MPV is a little bit challenged from that point of view. Have you done anything around timing?

The second thing, just following up from what Alexandra said in the main session, just in terms of write-offs with technology, how sure are you given this is a very large acquisition this is the right technology? I know you mentioned that you've looked at other players in the field, but this is much bigger as was mentioned 454 or NimbleGen that was written off.

Daniel O'Day

Thanks for asking that question again because I never got a chance to answer it for Alexandra, so I want to get to that.

Sorry now your first point?

From the floor

The first point was just the timing in terms of really getting to that nominal stage.

Daniel O'Day

Right. Again, I don't think it will be something that happens in two years' time, in five years' time, in 10 years' time. It is happening today. I mean today a cancer centre in Germany in Heidelberg I visited about two or three months ago, they're doing excellent sequencing on every patient that enters. So it's happening today in environments where also from a regulatory perspective it can be used, but granted, it's a small proportion of sequencing turnover in sales today. So I think the business case is robust because it's going to be a blend.

The first thing is the penetration to the research field has just begun as far as I am concerned. There is tremendous more penetration that can occur there and exactly when it comes into the clinic in a broad sense will depend also on the ability to have a highly accurate technology, one that can have reliable consistent results which also are the exact same qualities that you need to get IVD approval of these platforms. So even though there will be some of this activity in the large cancer centres, I think the combination of Roche and Illumina together are in the best position to be able to take the world leading sequencing technology today and as fast as possible get it into a stage where it can be regulatory approved in different markets around the world. It's clearly going to happen at different paces, but as that happens, I think that will open up then the penetration.

I don't think it's 10 years away that you get to a critical mass and this being used in the clinical setting, but I do think it's several years away. I think it will take some time to really get this be routine and then we'll see a ramp up at that particular time.

So I wouldn't want to comment more specifically on that. Obviously, in our estimation of the business, we have some estimates on that, but I do believe that combination of the penetration to the research and the integration to the diagnostics makes the business case very robust.

On the second question relative to technologies, in fairness to Alexandra's question, I'm not sure we were comparing apples to apples there. So what I want to comment on is the maturity of acquisitions. So in diagnostics we do a lot of acquisitions and for we, for a variety of reasons, we acquire technologies at all different levels of maturity.

454 for instance was at the forefront of the emergence of sequencing. It was a new technology and the same thing goes for something like Viran Diagnostics that we acquired a professional diagnostics business. That's a new technology in coagulation monitoring, platelet function that we're going to further develop and grow.

Those types of acquisitions carry with them different types of considerations than something like buying a world leader in tissue diagnostics Ventana and clearly, buying a world leader in sequencing and micro rays I just done think they're comparable in terms of the momentum they have, the ability for them to have already penetrated the marketplace and the ability for them to keep ahead of other

technologies, which has been the case with Ventana and I believe has been the case with Illumina.

So I'm not sure that comparison, or that direct comparison, suggests that we wrote off a small amount of intangible assets for NimbleGen and 454 would equate magnitude wise to the same around the write-offs on a large acquisition. That logic breaks down for me because of the nature of the two different acquisitions.

From the floor

Some people are saying that Illumina has the second generation technology but a third generation is yet to come. That would seem to be the risk here in terms of developing forward. Is that fair?

Daniel O'Day

Yes, I mean terminology in this field is interesting. Some people use first, second, third, fourth, but suffice to say that we consider Illumina to be a next generation sequencing technology and there are all the technologies that are in feasibility in right now which are single-strand, single-read type technologies. But those are in feasibility and we know, we have experience with those type of technologies that along the path to becoming real there are a lot of hurdles clearly.

The other thing to consider, and we obviously have experience within the Roche Group, the other thing to consider is if you look at even the announcements that Illumina made at JP Morgan in terms of their ability to bring the throughput and the costs down in their current system, the competitive distance between the next generation technology and the promise of the future of single-strand is getting more and more narrow in fact. I mean I think these next generation technologies continue to do more than most people in the field ever thought they could do. So it's also another important consideration as we look at risk of new technologies coming to the marketplace.

Having said that, I just want to be also very clear that in order to stay ahead, in order to continue to stay ahead with the types of portfolio that we have throughout our diagnostics division we have to continue to invest and we need to continue to invest in Illumina technology to make sure that it stays competitive and stays ahead of the competition. But when you have a market leading position and when you have momentum, that in the past has been a very powerful predicator for how things work out over time.

From the floor

I believe this will be a question on the transaction of Illumina, proposed transaction of Illumina. I don't want to ask [inaudible]. Can I assume that you were aware of the

starting trend in price? Maybe more clearly, were you aware of the announcements of the competitor about their $1,000 when preparing your offer?

And second quick question, Illumina has 60% market share and Roche has 10%. Of course you can define the market differently, but how intensive work is done on antitrust issues and are you comfortable about this transaction going through again regarding [strategy]?

Daniel O'Day

Sure, sure. In terms of what we were aware of or not, we were aware of everything until we launched the hostile transaction which was last Wednesday. So clearly, all that knowledge went into the consideration of what we think is a very attractive offer for Illumina shareholders. That's the answer to that.

In terms of the FTC issues, again, to be a bit repetitive, we have proceeded ahead with the regulatory filings. In this space it's a robust competitive space and we feel confident in the fact that we submitted the regulatory filing and that we can proceed ahead with the transaction accordingly. But obviously it is contingent upon the regulatory authority's review of the material and the approval accordingly.

From the floor

I think it was asked in this session this afternoon. Can you help us understand what the return on invested capital has been on the Ventana deal I guess now we're several years down the line and might give us some insight into how we should think about this transaction from a cash perspective as opposed to an earnings perspective?

And the second one, I guess we're getting back to my first question around what it was, but just in terms of trying to understand the synergy between pharma and the Illumina acquisition, what it does to our diagnostic business, I guess does it give you answers in terms of time, in terms of developing these things with your pharma colleagues? Will it provide a sort of bundling cost approach so you'll be able to apply cancer care per se, breast cancer $300,000 per patient and you'll provide a full service to the authorities, to the payer, to the individual etc? I'm just trying to understand the synergy between the two parts and how that could provide a synergy which others may not be able to leverage?

Daniel O'Day

Sure, sure. So I think first of all on the return on invested capital, we don't provide specific figures on that. What I can say is the Ventana transaction has been very, very successful. I mean when we look at the growth rates of Ventana today, particularly the growth rates ex-US, when we look at the penetration of new technologies, new science on that, when we look at the benefit that it has created synergistically across our division, I mean as Severin mentioned and I will also emphasise, the fact that we

have total solution offerings for our customers allow us to continue to grow faster than the market as the number one leader in diagnostics.

I mean this is a very real phenomenon effect. When you go into a pathology lab and you can offer them a Cobas 4800 on the molecular side and a benchmark and the tissue diagnostics side and you can tie this together, it's a very important strategic leverage in synergy that we have vis-à-vis the competition.

So I would say overall we're very pleased with the transaction of Ventana. I think it has delivered on the business case that we have. It's delivered on the synergies that we expected and it has really been integrated well into the Group.

In terms of the Illumina forward-looking uniqueness in the Roche Group, I would focus first and foremost on those same types of synergies that we have with Ventana. So I mean the Illumina synergies come from being able to have a distribution and a commercial synergy immediately. I mean taking the Illumina products into a sales and service organisation throughout the world that can bring it first into the research segment and eventually into the diagnostic segment, that's number one.

Number two, I think the unique synergy is bringing this to in vitro diagnostics is really a hurdle. We know this in the past and the unique characteristics that Roche has in terms of being able to develop the product, get the product to the regulatory authorities and get it into the commercial house and reimbursement, I mean these are all things that Roche has a lot of experience on and we drive it.

So the most important synergies we see in the transaction are really within the diagnostics division and the diagnostics group.

In addition, over time, we think we can leverage the benefits of diagnostics and pharma also with sequencing. This will come as we have an IVD platform in sequencing, as we have the need for the types of complexity that sequencing gives to a complex genetic mutation and how that might then play into a particular pharma or product or products in terms of how that's generated. But I think that's really more of a longer term issue, synergistic issue, that we see within the Group and I would suggest the shorter ones are really within diagnostics itself.

Unidentified company representative

Maybe I can just sort of add with the pharma side, I think that when we look forward and particularly in the area of oncology and the mutations that we will be discovering it may need a sequencing base test. If those products, those medicines need a sequencing base test, we need a standardised platform ready to launch it onto. So I think as Dan said, this is a longer-term thing, but given that we're the leader in oncology and all the work that we're doing, this is also fitting into that space as well.

From the floor

In terms of [inaudible] you talked about, can you remind me what the goal was and presumably may well have exceeded it now? So just trying to understand where this synergy is flowing through within the diagnostics business and with MD now those have been exceeded slightly further down the line.

Daniel O'Day

I won't comment on the specific business case we had inside Roche, but I would say that clearly one of the key goals was to take at the time a market leading technology in pathology and bring it from what it was, a predominantly US based business, into the rest of the world. If you look again at the growth rates just in 2011, you know we had 20% plus growth outside the United States, we have around 12% or so within the United States and that leads us to our overall 15% growth rate and that is not just a one year effect. I mean that's been happening now multiple years in a row. So I think the immediate sales synergies that come out of this have certainly met our expectations, or exceeded our expectations accordingly.

Then equally, when you look at the inter-play between tissue diagnostics and let's say molecular diagnostics, I mean I think this example of acquiring NTM and this piece of kinase assay is a very powerful one because here you've got the opportunity to take the world leading screening technology in terms of you HPV Cobas 1400 assay which is really to identify which women are at risk of cervical cancer and then triaging them to this P16 assay that says yes you're at risk but do you actually have disease and P16 then will indentify whether you have disease.

So again, the ability to co-develop these two, to use samples from the same clinical trials, to eventually bring these technologies to a pathology lab, or a major healthcare screening lab in a country I mean this is something that I think is very unique. That's just one example.

We had the same thing in oncology in terms of the overlap of let's say EGFR mutational analysis, so there are many different ways to look at these mutations and it's not a uni-dimensional problem, it's a multi-factorial problem and our ability to leverage our development programmes and eventually our commercial programmes here are unique.

Part of the Bioimaging acquisition that we did a couple of years ago in tissue diagnostics, it's a software based digital pathology imaging base but it has the vision to go beyond that. It has the vision to really bring all the results from a particular cancer patient into one report that a pathologist would read and then consult with the oncologists on the best treatment for patients. You would think that is standard practice in a hospital today and in fact it's not. I mean you have tests being done all over the place. You've got pathology tests, you've got tissue tests and the ability to pull this together, I think every cancer patient deserves this and I think this is again

one of the unique capabilities of combining now sequencing with these other technologies to bring this into the clinic in the mid- to longer-term.

From the floor

So there is no sort of specific CHF100m figure then?

Daniel O'Day

For Ventana itself?

From the floor

Yes, that you promised and there's no update on that made. Thank you.

Daniel O'Day

But it is for sure delivering.

From the floor

Sure, I understand that.

Unidentified company speaker

Any other questions?

From the floor

Just one title up there, am I right in thinking Illumina is more of a global reach than Ventana was and if that's correct, would you be thinking about the actual cost synergies as well as revenue synergies or not for Illumina?

Daniel O'Day

What do you mean by cost synergies?

From the floor

Sales force.

Daniel O'Day

No. I think the answer to that is definitely not. First of all, this is not a cost synergy equation; this is a growth synergy. But to your previous question, is the balance better

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with Illumina than Ventana, I wouldn't want to necessarily exactly compare the two, but again, bottom line is that Illumina has about 55% of the sales coming from the US today and 80% of their sales are coming from large genome centre academic centres.

Now clearly, some of those genome centres are outside the United States of course, but the sales force structure is very different than what we have in our let's say our applied science group.

Our applied science group in our country is 130 countries around the world is geared towards large, medium, small size research centres. There is not, in my opinion, tremendous overlap in terms of those customer bases, so I think there is an ability to immediately get sales synergies out of this and drive this into the research audience.

I mean we have people on the ground in these countries selling a variety of technologies that can immediately start selling Illumina technologies after the close of the transaction.

From the floor

I'll just ask on the diabetes business, I guess that was something you were looking at potentially spinning off and subsequently decided to keep it. Can you just try and help me understand with the new launch how you feel that business is going to be now and if there is going to be a point in the future where you feel that this is now a small part of diagnostics, we're going in a different direction, you may reassess spinning it off as opposed to keeping it in-house?

Daniel O'Day

I mean we've had no consideration of spinning it off. It's an important part of our business. Diabetes, as you know, is one of the key global health problems around the world. The incidence is growing on a yearly basis unfortunately and, as you go into emerging markets as well, the access to healthcare is increasing. So we see diabetes overall as an important aspect to our business and our strategy there is to really continue to move towards more complete care of patients with diabetes.

In other words, what I mean by that is beyond just the standard blood glucose testing into really a continuum of care with glucose meters, with the pumps and eventually continuous glucose monitoring so you get closer and closer to this artificial pancreas and that's what we're investing in and in particular, our patch pump technology that we acquired through Medingo we will be rolling out further this year in Europe. This is going to be a really important new advancement there because it will take the durable pump which has advantages but also disadvantages and a certain market penetration and with the patch pump we feel we can get to a lot more insulin users than we could with the durable pump and connecting that in with our blood glucose meters allows us to get this continuum of care moving in diabetes.

So on the contrary, diabetes is an important business for us and one we continue to invest in and I think one that will continue to grow with the incidence of diabetes all over the world.

From the floor

Is this Nano launch, are you ahead of current competitors or does it move you up to them?

Daniel O'Day

We think the Nano will be a very competitive patch pump. There are some early entrants in the patch pump environment but we think the unique features of this, of our patch pump, semi-disposable allows us to have a very competitive product when it comes to the market.

From the floor

Yes, just to follow up the previous question on the Illumina acquisition and the research market, in the rationale, which current or future research areas where you really targeting when you've picked up the Illumina company? Which ones are you really going for?

Daniel O'Day

What type of research area?

From the floor

Yes, which type of research areas yes. I mean there would be some specific ones.

Daniel O'Day

It is being used in a lot of different research areas. Obviously in the field of oncology today for the occasional analysis, but as well in heredity diseases and genetic disorders. In all aspects of medical clinical research where genes are a cause or a potential cause of a disease, that's where it's being used at this stage. Everything from your basic research setting to a more clinical operation setting with let's say pharma companies or government funded trials. More and more, particularly in the cancer area, there are very few trials that don't incorporate some type of sequencing mutational analysis into their trials as an example. But it covers everything from basic research to the more clinical research.

From the floor

So do you think it's going to be sold in all the way from small up to large research centres?

Daniel O'Day

At the current technology advantages and the price points we're getting to, I think it will be open to many more labs than it has been in the past. I mean the [high C] technology and the costs associated with that, it was a bit limited to large genome centres that could have the volume to constantly keep those machines busy and drive it through. As we get through to the price points and the cost points that are being discussed today or are actually being done today, then I think it can really get into these other areas real quick.

From the floor

Just thinking about your margin, you mentioned you were top end of the industry and that there is some potential continued I suppose savings effort there of growing costs less than sales. How should we think about that going forward? I've known that margins have dipped previously, mainly I think due to diabetes care in the past, but how should we think about that?

Daniel O'Day

We don't guide specifically on the margins, but just to give you a little flavour to it, you get to a certain point on the margin side where you have to also make sure you continue to reinvest in your business and be competitive. For instance, the acquisitions that we did this year, the investment into our new platforms in things like molecular diagnostics and professional diagnostics, we want to make sure we stay ahead of the technology curve and the assay curve and drive these things to the marketplace, so it's going to require our continued investment.

I mean I don't think it's realistic to think that you can be significantly ahead of your overall competitive marketplace and still remain competitive out there in the marketplace. But at the same time, I mean, I want to continue to focus on our efficiencies in the organisation. I clearly do, but I think some of those efficiency savings we will be reinvesting back into the business in a significant way in the next couple of years.

Thanks for your interest. Good. Thank you very much for your time. I appreciate it.

[End]

Roche

Investors/Analysts Conference

London

Diagnostics – Session 2

Q&A Session

Daniel O'Day

Where would you like to go? Really, whatever you want to talk about, whatever you would like to get some information on.

From the floor

Just I suppose a general question, if you bought Illumina or a company like Illumina, to what extent has our sequencing technology done that? How much R&D would you have to spend every year for the business development you would have to do every year to keep a company like Illumina competitive in five years' time? So does it now tail off that level of investment or does it just stay very high because there keeps on being an area where technology is progressing very quickly?

Daniel O'Day

I think you need to continue to invest in these technologies without a doubt, but here we're talking about taking a market leading technology and continually refining it. I think that's important to note.

But if you look at our other high growth business, tissue diagnostics, immunology, I mean we're investing constantly in those businesses at a higher percentage of sales let's say than we would in clinical chemistry or something like that.

So I think you disproportionately invest of course in the businesses that have the most potential growth and Illumina would be no different than that. I think you want to continue to drive that technology.

You know what's interesting is I think with sequencing we've gotten a tremendous distance in the past 10 years. We're not entering into a phase where we're starting to get to some technological limits I would say and also price limits and where we go. I think it can still improve and it can still improve dramatically, but you know you're going to be investing in incremental advances in the technology to stay ahead of the competition.

From the floor

Is it the sort of area where it is going to just evolve incrementally? Is it the sort of thing someone has to come along with a new disruptive approach and that's how we're giving it further stages of sequencing or is it just going to keep incrementally evolving?

Daniel O'Day

Well I think you know there is always room for disruptive technologies without a doubt and we have our fair share of experience with those ourselves. What we know about disruptive technologies is that they're high risk, that proving feasibility is a difficult thing and when you look right now at the level of accuracy that you're getting out of something like Illumina short-read technology, I mean it's a level of accuracy that is not just good for the research market because in the research market, if you have an accuracy level of 80%, that's probably adequate. But if you're making a life or death decision on somebody, 80% is completely inaccurate.

But with Illumina technology I mean you're getting very high accuracy levels that would be appropriate to the clinic. So the question is what is that disruptive technology going to bring that's going to make such a significant difference. Can you get beyond a 99% accuracy and how meaningful is that and how much does that drive it? Is there a cost advantage? Is there other advantages? I mean these things all, we would have to continue to invest in and make sure we have the most competitive platform. I think we feel confident that the market leading technology of Illumina is sustainable as we go into the future as the right technology for the research setting and the right technology to also take into the IVD centre for a patient decision.

From the floor

Just the one. In terms of the cost, presumably if it's a race for who can do it the cheapest. Long-term what do margins look like in sequencing? Clearly the volume of procedures go up massively but is it just going down and down and down? Does it halve every year for 10 years or does it just get endlessly cheaper or is there a way that somehow you can charge a premium for something else within sequencing?

Daniel O'Day

We think the margins of the business today are good. We think they'll stay good for the future without a doubt. Again, our assessment is you start to approach $3,000, $2,000, $1,000 sequencings, there is still adequate margin in that. More than adequate margin in that and I don't think you go from $3,000 to $100. I think this isn't going just be an eventual pick up. It will reach a technological limit in terms of what you can do and at what cost you can do it at.

From the floor

So you don't think you'll ever to $100?

Daniel O'Day

I think not in the near term future.

From the floor

Not in US dollars.

Daniel O'Day

No, that's highly unlikely. If you just look simply at the chemistry costs and the costs of now the density of rays, I think you just don't get to that area. Nor do you think I you need to.

I mean look at this way. I mean if you look at what this technology can add value wise to patients eventually as we take it into the clinical setting, our colonoscopy today costs $1,500, $2,000, $1,000 depending where you are and has a certain predictability. I think if you can do a whole genome re-sequencing for about that same cost and the value that can add to the medical and healthcare system in terms of picking the right therapies, making sure you don't put patients on wrong therapies, avoiding hospitalisations and surgeries, I think you have a very compelling effect and again, we're talking so far about price points in the research setting.

When we go into price points in the IVD setting you have different barriers to entry there right. I mean the ability to get something IVD approved, to get content on that

platform and our discussions, in our industry discussions I would say with the FDA what's clear to them, just taking the FDA as an example, is that you're going to have to be able to get regulatory approval for different applications. Therefore, similar to our other IVD models, there are going to be barriers for other entrants to come in and I think that will also, to a certain extent, preserve good price points in that setting and good returns. It has it over businesses, so one could argue you can the cost of goods is one issue, what value it brings to the healthcare system is quite a different one.

From the floor

Like I said, there is other people who are always competing with you. I definitely agree with you that the value would be much more than $1,000. It's other people who can also do it cheaply will inevitably just bring the prices down.

Daniel O'Day

Well, but if that were the case then in our immune assay business we have lots of competitors, there would be no business there today. You stay ahead of it from a systems standpoint. Again, it gets to our competitive area of standards in our industry. You have to have a good system. You have to have good work flow. This is another point that Illumina I think has a very good system both in terms of their ease of sample work for their time to result. All of these things serves the instrumentation and then it's the content you put on that and then it's the IT system you connect it with. So these barriers are not just about can you do it cheaper; it's about are you constantly innovating or are you staying ahead of the competition, particularly in a regulated environment, to be able to get a better return than your nearest competitor. So I think it has worked in our business for decades. I'm convinced it will work here as well.

From the floor

I just want to ask a question about how you see the practical application of large scale genomics in the clinic because if we look at the human genome project for example, a lot of people now argue that it didn't deliver lots of things that people thought it would deliver. So, for example, in common diseases we found that they're very, very genetically complicated which means the human genome project hasn't thrown up many good drug targets relatively. In oncology on the other hand, we've found many cancers are relatively genetically simple and that is why you have five, six or seven mutations and if you intervene on any one of those you can have a big therapeutic effect which is precisely what [Zalforam and Dismodigif] are good drugs because the genetics of cancer is very, very simple compared to the genetics of most common chronic diseases. What that means though, if I want to select a cancer treatment, I don't need to do whole genome sequencing because there will be three or four or five mutations that I know to look for that I may have drugs that work on. Yet if it's a complicated disease where doing a whole genome sequencing will tell me the pattern

of gene discretion in this person, actually, none of those things is probably individually important enough to make a therapeutic intervention on.

So there is something of a paradox in that the genetics of cancer has made it attractive, or made genetics a useful research tool means that actually genomics may be less useful when it comes to therapy whereas the complicated diseases where genomics has been a bad research tool there in therapy because it hasn't delivered lots of drugs, it's not clear how you tailor treatment.

Now is that the answer actually is something different so that really what you do is you do large scale genomics, you just observe a pattern and historic you know that that pattern gene expression is correlated with response treatment X and we don't really know why, so it becomes another way of describing a patient and you just observe historically that this sort of pattern gene expression does well with that treatment, this pattern of gene expression finds that particular thing toxin.

So I just want to know how do you see it working? Is it really the second of those that we're going to see, or do people really think that you can actually have some targeted therapies based precisely on the sort of patterns of gene expression of the kind that you need large scale sequencing to discover?

Daniel O'Day

I mean just in the area of cancer, just to stick with your two, I think it's actually probably both. I mean the first one is yes I agree with you, today there is three or four drug targeted mutations that become extremely important to measure right. I mean ERAF, KRAS, EGFR, but I think if you look at it in the next five years or so we know we have targets that are category kinase directed, they're mechanic affected. When you start to get to beyond let's say three or four target mutations, even if you just go to 10 target mutations, then you look at the economics of the thing.

From the floor

So essentially you're saying you might as well sequence the whole genome?

Daniel O'Day

Not necessarily the whole genome by the way. You can use rays to do exome capture. You can capture 50 or 100 meaningful genomes and you sequence it, but when you start to get into needing to do let's say 10 PCR assays on a particular patient sample you get into the range where sequencing and not whole genomes, but sequencing, becomes probably a better technology to look at those mutations. But there is any number of ways to use sequencing.

I mean again, you can limit the number or you can look at the whole genome, but practically, you get to a critical mass where sequencing takes over from individual PCR assays, so that's number one.

Then number two to your point, yes, I think science will move this in the direction of looking towards these complex series of mutations, genetic signatures if you like. I mean of course it is present today in things like genomic health and others, but more complex genetic signatures and saying what does that mean in terms of the prognosis of that particular cancer, what type of intervention should we do at one particular period of time and that's the other way that it is being used today and I think it will continue to be used as we have more observational studies on things like large sample databases with those types of data.

Then of course there are areas outside of cancer which admittedly I agree with you are a bit more immature in terms of the science and knowledge. But you know genetic disorders, certainly childhood foetal genetic disorders. Today it's used routinely in HLA for bone marrow transparent for instance and it's used in deep re-sequencing for HIV. Again, granted, these may be smaller areas today that they're used in, but I think more and more we'll find reasons, medical reasons, that this genetic information becomes actionable and necessary.

Does that?

From the floor

Yes, that's great.

Daniel O'Day

I think your question is a very compelling one and I'm far from a medical/clinical expert, but I talk to the clinical experts. They're very excited about that.

From the floor

I think my question partly reflects the fact that I, actually, probably quite a lot of people, just don't know the gritty details of why you would choose a particular testing technology rather than another.

Daniel O'Day

Right, right. I mean one of the really nice things about let's say our ERAF assay is that it has very comprehensive mutation coverage for the V600 assay and it's reproducible and it's reliable, but you catch most of the mutations. If you have a highly accurate, back to the accuracy of sequencing, which is why you really have to look at this technology from a lot of different angles, not just throughput and cost, but also how accurate are they when picking mutations. But if you have a highly accurate

sequencing mutation technology that can pick up as many mutations as our PCR assay does plus that many mutations in KRAS, EGFR, kinase, then you start to really be able to amortise this across most of the [assay] choices because again, one ERAF assay is not the same as other ERAF assays and we've compared it to older Sanger sequencing which is much less accurate and we know that our ERAF assay and PCR picks up about 20% of patients that are missed by Sanger sequencing, just to give you an idea of the quality level of sequencing.

But when you look at the current Illumina technology, I think the accuracy level is so much higher that it starts to mimic highly reproducible PCR assays because you don't want to miss the patients here number one. You don't want to false positives or false negatives. By the way, that's when going into the clinical world. It's a very different discipline you need also in the organisation to get these products approved from a regulatory perspective.

A regulator will always look at obviously do no harm. How many patients are you missing or how many patients are you inappropriately prescribing and it requires big clinical databases, it requires a lot of data to be able to get those products approved and hence the ability to keep a price point also.

From the floor

You had a date that occurred in the past which was your first time that you approached the company and then you had a date which you closed the deal. How long was that?

Daniel O'Day

Help me with my memory.

Unidentified company speaker

It was probably close to nine months.

Daniel O'Day

Nine months. I think it was about that period of time.

From the floor

So you just recently had a date with Illumina in November that's disclosed.

Daniel O'Day

Yes.

From the floor

I think Illumina disclosed that.

Daniel O'Day

Yes, we had the first meeting with them in December.

From the floor

All right and then would you describe that because now you're an expert at this particular type of transaction, would you describe the – you fill in the adjective of describing the personality of the people involved at Illumina. Are they similar in terms of spiciness to the Ventana people at this stage in the conversation?

Daniel O'Day

Every transaction is so different. I really wouldn't want to even begin to compare it.

From the floor

Is [Arizona] a little more mild than people from San Diego?

Daniel O'Day

I mean the similarity here is they're both highly innovative, creative companies with good track records.

From the floor

But you are acquiring the company from the guy that started Illumina right? Wasn't he part of the inventor or there was patents going around. The little one that you bought in this space, I think he is connected.

Daniel O'Day

Oh, you're talking about the 454 acquisition.

From the floor

Yes, yes. He somehow connected to Illumina.

Daniel O'Day

To my knowledge I don't believe so.

Unidentified company speaker

There is a few ex Roche people.

Daniel O'Day

There's a connection between 454 and Ian Torrick.

From the floor

Oh, that's who it is.

Daniel O'Day

Which is what [Life] acquired. But to my knowledge I don't think there is a connection between 454 and Illumina.

From the floor

How many people have you got in Roche at the moment working on sequencing? What are they doing in terms of actually production and do you just close that down and move your business to the Illumina model or they continue to do what they're doing? Just to see what you've got at the moment.

Daniel O'Day

I will just say what we have the moment. I think it's too premature to look at what the future stable will be. But what we have at the moment is in sequencing we have a group of I think less than 200 people at 454 in Branford, Connecticut and what they're working on are current platforms which the GS Flex and the GS Junior predominantly which are the long-read technology platforms and they're working on constantly improving those platforms. At the same time we have a publicly disclosed collaboration with a company called DNA Electronics in the UK which is kind of a next generation 454 platform. It takes it from an optical read to an electronic read and we've also disclosed we have a collaboration with IBM on single-read technology which is really at a much earlier feasibility stage.

So I mean that's our basic focus on sequencing today. We do feel that these technologies are pretty complementary. I mean I think the long-read technology, for instance, is very good for research applications. Things like de novo sequencing. We have an organism and you need to get every base pair absolutely correct because with shorter reads you're, by nature, you're connecting those shorter reads and when you connect those shorter reads to the eventual readout, there's a potential for accuracy limitations whereas the longer-reads are literally taking longer strands of DNA to get more accuracy.

So in those applications where you just need to map every single genome correctly, that's where long-read comes in. With the shorter read technology like Illumina, you have an ability to have a higher throughput. You can move samples through much more quickly. You can do it at a lower cost. You can get turnaround time that is much more, now to the discussion of the JP Morgan Conference, down to one day.

I mean this works in the whole genome sequencing place. It works in exome sequencing and other applications, but it is also the most appropriate technology we feel to take into the clinic and into eventual IVD as well. So I think that's kind of the complementarily nature and we think they work well together, also close transactions, so we intend to continue the two technologies for the different applications as they happen.

From the floor

Could I ask a diabetes question?

Daniel O'Day

Yes sure.

From the floor

Just to change tack for a moment. Long approval time for your Accu-Chek Nano 2 to arrive in the US.

Daniel O'Day

Very long approval time.

From the floor

Have you been left behind in times of market competitiveness because of that delay and is it terminally doomed to catch up in that area? Is the area ever going to grow more than low single digits from now on? I contrast what appears to be the picture at the moment with, in the incident of diabetes companies oh it's growing like topsy. I mean is it going everybody is going to be diabetic by the end of the year.

Daniel O'Day

Watch what you eat. So I think the answer to your first question is no, we're not forever doomed. In fact, I mean the diabetes care market, there's a few competitors there and if you watch the share of evolution of a pack it's pretty slow. I mean you're talking about a consumer market here. You're talking about people that fall in love with their meters and get very used to them and get very accustomed to them. So

despite the fact that we clearly were longer than we expected or wanted to deliver the new product to the US marketplace, our share erosion has actually not been too much.

So we feel that now with this new meter has significant competitive advantage. It has the maltose free chemistry. It has no codeine. It has a size and a sleekness that now we can not only rollout the Nano, but we also intend to rollout the Combo later this year and other products are in line that have done very well competitively in other parts of the world where we've launched them. Like Europe and in Asia Pacific where we've launched them, they've done very well competitively. So we're optimistic that they will also do well in the United States.

The longer term ability to differentiate a diagnostics, in our opinion, really comes from more and more connecting the pump business and in our case it will be the patch pump business with our glucose meters and eventually with a continuous glucose monitor which we announced an arranged with Dexter Com to begin with. We have our own projects in continuous glucose monitoring, but really getting more and more towards this artificial pancreas is the way I think to get out of a commodity trap with the diabetes care business because at the same time, and you're right to point out, the dynamics, in the glucose business alone in the United States they're strong. I mean the price erosion is strong in the United States, so there is volume gain, but the price erosion is strong, so we've got to continue to find ways to differentiate our offering beyond price which is part of the strategy.

From the floor

This artificial pancreas, this is going to be a type 1 primarily?

Daniel O'Day

Yes, yes. Certain segments. Predominantly type 1. Predominantly type 1. We're going to have obviously insulin dependence that's right.

I mean there is a whole another strategy which is of course the growth we have in the emerging markets because here I think again the competition is heavy, but as you have access to healthcare systems opening up to populations who never had access before, the glucose monitoring business can become very attractive in those markets in those countries because of the volume base of that business.

Unidentified company speaker

We had double-digit growth last year.

Daniel O'Day

In Asia Pacific overall.

Investors/Analysts Conference – Roche Diagnostics Session 2

Unidentified company representative

Yes, excluding US and the EMEA.

Daniel O'Day

Yes, and Latin America as well.

From the floor

Is there less experience in pain and scarring with the new blood glucose monitoring?

Daniel O'Day

I think the actual lancing is similar to the procedure to the previous one.

Unidentified company representative

We have probably the best lancing, the least pain and the least and actually you know what makes it really good is because you don't see the blood.

From the floor

That would help.

Each share of Agilent s common stock outstanding as of the close of business on December 26, 2001, the Record Date, is entitled to one vote at the annual meeting. On the Record Date, Agilent had approximately 463,695,160 shares of common stock issued and outstanding. ***Q: What is the quorum requirement for the annual meeting?*** **A:** The quorum requirement for holding the annual meeting and transacting business is a majority of the outstanding shares entitled to be voted. The shares may be present in person or represented by proxy at the annual meeting. Both abstentions and broker non-votes are counted as present for the purpose of determining the presence of a quorum. Broker non-votes, however, are not counted as shares present and entitled to be voted with respect to the matter on which the broker has expressly not voted. Thus, broker non-votes will not affect the outcome of any of the matters being voted on at the annual meeting. Generally, broker non-votes occur when shares held by a broker for a beneficial owner are not voted with respect to a particular proposal because (1) the broker has not received voting instructions from the beneficial owner and (2) the broker lacks discretionary voting power to vote such shares. ***Q: Who will count the vote?*** **A:** A representative of Computershare Investor Services, Agilent s transfer agent, will tabulate the votes and act as the inspector of election***Q: Is my vote confidential?*** **A:** Proxy instructions, ballots and voting tabulations that identify individual stockholders are handled in a manner that protects your voting privacy. Your vote will not be disclosed either within Agilent or to third parties except (1) as necessary to meet applicable legal requirements, (2) to allow for the tabulation of votes and certification of the vote, or (3) to facilitate a successful proxy solicitation by the Board. Occasionally, stockholders provide written comments on their proxy card, which are then forwarded to Agilent s management***Q: Who will bear the cost of soliciting votes for the annual meeting?*** **A:** Agilent will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials. In addition to the mailing of these proxy materials, the solicitation of proxies or votes may be made in person, by telephone or by electronic communication by Agilent s directors, officers, and employees, who will not receive any additional compensation for such solicitation activities. Agilent has retained the services of Georgeson Shareholder Communications Inc. (Georgeson) to aid in the solicitation of proxies from banks, brokers, nominees and intermediaries. Agilent estimates that it will pay Georgeson a fee of $12,500 for its services. In addition, Agilent may reimburse brokerage firms and other persons representing beneficial

owners of shares for their expenses in forwarding solicitation material to such beneficial owners.

Q: May I propose actions for consideration at next year s annual meeting of stockholders or nominate individuals to serve as directors?

A: You may submit proposals for consideration at future annual stockholder meetings, including director nominations.

Stockholder Proposals: In order for a stockholder proposal to be considered for inclusion in Agilent s proxy statement for next year s annual meeting, the written proposal must be received by Agilent no later than September 13, 2002. Such proposals will need to comply with the U.S. Securities and Exchange Commission s regulations regarding the inclusion of stockholder proposals in Agilent-sponsored proxy materials. In order for a stockholder proposal to be raised from the floor during next year s annual meeting, written notice must be received by Agilent no later than October 25, 2002 and should contain such information as required under Agilent s Bylaws. If we do not receive notice of your proposal within this time frame, our management will use its discretionary authority to vote the shares it represents as the Board may recommend.

Nomination of Director Candidates: Agilent s Bylaws permit stockholders to nominate directors at a stockholder meeting. In order to make a director nomination at an annual stockholder meeting, it is necessary that you notify Agilent not fewer than 120 days in advance of the date of the prior year s annual meeting of stockholders. Thus, since this year s annual meeting is February 22, in order for any such nomination notice to be timely for next year s annual meeting, it must be received by Agilent not later than October 25, 2002 (i.e., 120 days prior to February 22). In addition, the notice must meet all other requirements contained in Agilent s Bylaws and include any other information required pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

Copy of Bylaw Provisions: You may contact the Agilent Corporate Secretary at Agilent s corporate headquarters for a copy of the relevant Bylaw provisions regarding the requirements for making stockholder proposals and nominating director candidates.

AGILENT S ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED OCTOBER 31, 2001, IS AVAILABLE WITHOUT CHARGE TO EACH STOCKHOLDER, ON SUCH STOCKHOLDER S WRITTEN REQUEST TO THE UNDERSIGNED AT AGILENT S ADDRESS INDICATED ON THE NOTICE OF ANNUAL MEETING OF STOCKHOLDERS ON THE FIRST PAGE OF THIS PROXY STATEMENT.

By Order of the Board

D. CRAIG NORDLUND

Senior Vice President, General Counsel
and Secretary
Dated: January 11, 2002

DIRECTIONS TO
THE FLINT CENTER FOR
THE PERFORMING ARTS

FROM SAN FRANCISCO

Take 280 South to 85 South

towards Gilroy.

Exit at Stevens Creek Blvd.

(1st off-ramp).

Turn East (left) onto Stevens

Creek Blvd. (over freeway).

Turn right onto Mary Ave. (2nd light).

Make immediate right onto

frontage road of De Anza College.

At stop sign turn left.

Parking is available in the parking

structure on your right.

FROM SAN JOSE

Take 280 North to the De Anza Blvd. exit.

Turn South (left) onto De Anza Blvd. and proceed to Stevens Creek Blvd.

Turn right onto Stevens Creek Blvd.

Turn left on Mary Avenue.

Make immediate right onto frontage road of De Anza College.

At stop sign turn left.

Parking is available in the parking structure on your right.

Flint Center for the Performing Arts
21250 Stevens Creek Boulevard
Cupertino, California
February 22, 2002 at 10 a.m.

ADMIT ONE

Flint Center for the Performing Arts
21250 Stevens Creek Boulevard
Cupertino, California
February 22, 2002 at 10 a.m.

ADMIT ONE

AGILENT TECHNOLOGIES, INC

PROXY

Annual Meeting of Stockholders February 22, 2002
This Proxy is Solicited on Behalf of the Board of Directors.

The undersigned hereby appoints Edward W. Barnholt and D. Craig Nordlund and each of them as proxies for the undersigned, with full power of substitution, to act and to vote all the shares of Common Stock of Agilent Technologies, Inc. held of record by the undersigned on December 26, 2001, at the annual meeting of stockholders to be held on Friday, February 22, 2002, or any adjournment thereof.

IMPORTANT This Proxy must be signed and dated on the reverse side.

(Continued and to be voted on reverse side.)

Dear Stockholder:

On the bottom of this card are instructions on how to vote your shares for the election of directors and all other proposals by telephone or over the Internet. Please consider voting by telephone or over the Internet. Your vote is recorded as if you mailed in your proxy card. We believe voting this way is convenient.

Thank you for your attention to these matters.

0078IC

YOU CAN VOTE YOUR SHARES BY TELEPHONE OR INTERNET!
QUICK * EASY * IMMEDIATE * AVAILABLE 24 HOURS A DAY * 7 DAYS A WEEK

AGILENT TECHNOLOGIES, INC. encourages your to take advantage of convenient ways to vote your shares. If voting by proxy, you may vote by mail, or choose one of the two methods described below. Your telephone or Internet vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed, and returned your proxy card. To vote by telephone or Internet, read the 2002 proxy statement and then follow these easy steps:

TO VOTE BY PHONE

Call toll free 1-877-550-2646 in the United States or Canada any time on a touch tone telephone. There is **NO CHARGE** to you for this call. Go to the following Web site: **www.computershare.com/us/proxy** Enter the 6-digit **Control Number** located below. Enter the information requested on your computer screen, including your 6-digit **Control Number** located below. Follow the simple instructions on the screen.

TO VOTE BY INTERNET

Option 1: To vote as the Board of Directors recommends on ALL proposals: Press 1

When asked, please confirm your vote by pressing 1

Option 2: If you choose to vote on each proposal separately, press 0 and follow the simple recorded instructions.

If you vote by telephone or the Internet, **DO NOT** mail back the proxy card.

THANK YOU FOR VOTING!

CONTROL NUMBER

+ **AGILENT TECHNOLOGIES, INC.**
FEBRUARY 22, 2002
0078HB

CONTROL NUMBER

Mark this box with an X if you have made changes to your name or address details below. A2891

Proxy Card

Please mark vote in box in the following manner using dark ink only. **X** **OR** **PLEASE REFER TO THE REVERSE SIDE FOR TELEPHONE AND INTERNET VOTING INSTRUCTIONS.**

The Board of Directors Recommends a Vote FOR the listed nominees.

1. The election of Directors: **For** **Withhold**

01. Heidi Kunz 02. David M. Lawrence, M. D 03. A. Barry Rand

The Board of Directors Recommends a Vote FOR the following proposal.

For **Against** **Abstain**

2. The ratification of the appointment of independent accountants PricewaterhouseCoopers LLP.

In their discretion the Proxies are authorized to vote upon such other business as may properly come before the annual meeting.

THIS PROXY WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED STOCKHOLDER. **IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR ITEMS 1 and 2.**

Please sign exactly as your name or names appear above. For joint accounts, each owner should sign. When signing as executor, administrator, attorney, trustee or guardian, etc., please give your full title.

Signature Signature Date

_____ _____
_____ ____ / ____ / _____

+ +