Strategic Management
-Turning Concept into Reality-
Madrid, June 2005

Roland Baumann
Senior Executive Vice President
Group Compliance Officer and Head of Corporate Administration
1. Company Introduction

2. Office of Strategic Management

3. How we built the office

4. Key Take-aways
A Global Leader in Biotech with 100 years of history  
#1 in Europe and #3 Worldwide

<table>
<thead>
<tr>
<th>World’s 3rd Largest Biotech Company</th>
<th>'04 $ Revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amgen</td>
<td>10,550</td>
</tr>
<tr>
<td>Genentech</td>
<td>4'621</td>
</tr>
<tr>
<td><strong>Serono</strong></td>
<td>2'458</td>
</tr>
<tr>
<td>Biogen IDEC</td>
<td>2'210</td>
</tr>
<tr>
<td>Genzyme</td>
<td>2'201</td>
</tr>
</tbody>
</table>

- Founded in Rome in 1906, moved HA to Geneva in 1977
- Listed on SWX (SEO) and NYSE (SRA)
- No.1 provider of infertility drugs worldwide
- No.1 player in multiple sclerosis outside the US
- Revenues of $2.5 billion in 2004; Net income of $494 million in 2004
- 21.9% net Income growth, versus the average of it’s top five global peers’ 17.9%

Fully integrated global biotech company (R&D, production, marketing, sales)
- Central management team with high operational control
- 10 Marketing & Sales Regions with operations in 45 countries and sales in over 90 countries
- 6 production facilities and 5 research centers
- 2 times the size of its closest European peer (revenues)
- 4,900 employees worldwide

March 2, 2005
## Geographical Diversity

Geographical diversity sets us apart from our peers

% of revenues, 2004

<table>
<thead>
<tr>
<th>Company</th>
<th>Europe &amp; International</th>
<th>USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Serono</td>
<td>69%</td>
<td>31%</td>
</tr>
<tr>
<td>Chiron</td>
<td>55%</td>
<td>45%</td>
</tr>
<tr>
<td>Gilead Sciences</td>
<td>48%</td>
<td>52%</td>
</tr>
<tr>
<td>Genzyme*</td>
<td>43%</td>
<td>57%</td>
</tr>
<tr>
<td>Biogen Idec</td>
<td>30%</td>
<td>70%</td>
</tr>
<tr>
<td>Amgen</td>
<td>16%</td>
<td>84%</td>
</tr>
<tr>
<td>Genentech</td>
<td>13%</td>
<td>87%</td>
</tr>
<tr>
<td>MedImmune</td>
<td>10%</td>
<td>90%</td>
</tr>
</tbody>
</table>

Source: Company 2004 10-K filings
* Split in 2003 (10-K filings)
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Key Roles and Responsibilities

Ensure implementation of Group Strategy process

- Lead functional process improvements
- Follow-up on CEO EMB decisions
- Corporate Internal Audit
- BSC Reporting

Governance
- Governance Policies & Procedures
- Strategic Documentation

Awareness
- Projects
- Best Practice

Alignment
- Reviews
- Balanced Scorecard

Execution
- Strategist

Education and Implementation of BSCs
- Develop agendas for EMB meetings

Project Monitoring
- Project Management Training
- Corporate Quality Assurance

Benchmark & introduce new concepts
- Develop & implement Enterprise Risk Reporting
- Facilitate development of Group Strategy documents

Strategist
- Reviews
- Special Projects
- Strategic Documentation
- Governance
- Project Monitoring
- BSC Reporting
We are an “Office of Doers”

Key Skills Required
- Big picture mentality
- Networking skills (Influencing)
- Project management
- Cross functional business skills
- Entrepreneurial
- High energy (ability to chase)
- “Doers” not just planners

Ability to Execute

OSM must produce deliverables and/or coordinate tangible outputs

- 1 Corporate BSC
- 9 Function BSCs
- 27 sub/Site BSCs
- Project Monitoring Database
- CEO Support Presentations
- 25 Executive Board Agendas
- Product Development Strategy
- 4 Franchise Business Plans
- Research Strategy
- Business Development Strategy
- Project Management Handbook
- Product Development Strategy
- 4 Franchise Business Plans
- Research Strategy
- Business Development Strategy
OSM ensures the process: Translating Strategy into Action
A Comprehensive Annual Cycle

Vision, Goals, Strategy

Franchise Business Plans; New Product Development Plan; Discovery Plan

Function Implementation & Control

Performance Review

Project Management

Balanced Scorecard; Individual Objectives

Reward

Resource Allocation
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Office of Strategic Management...a “Natural Pearl”

- Cultivating a pearl takes time
- New layers form over the years

Pearls are not perfect in shape and color, but are still considered precious and valuable
Many challenges over the years, organic growth towards OSM → Three stages to our OSM Development

**Stage I:** Recognizing the Need

**1991**
- Tracking execution of CEO decisions
- MTH Office

**1993 - 1995**
- Financial Controls
- Management by objectives
- P&L Management
- Initiative Management

**1995 - 1996**
- Approval processes on a cross-functional level

**1997 – 1999**
- Cross functional project management
- Performance management
- Alignment of budget, planning, compensation
- MTH Office
- Centralized Planning
- Centralized Initiative Management
- Cross Functional Management structure
- Project Based Organization
- Balanced Scorecard
- Business Plans
- Governance
- Strategy Maps

**2000 - 2004**
- Strategy focused
- Committee mandates
- Communication of strategy
- P&L Management
- Initiative Management

**2005**
- Efficient controls over risk
- Visibility to OSM
- Additional CEO support
- ERM Program
- Formalize OSM
Many challenges over the years, organic growth towards OSM

Three stages to our OSM Development

**Stage II:**
*Forming the Pieces to drive Change*

1991 - 1995
- Financial Controls
  - Tracking execution of CEO decisions

1995
- Controls and monitoring of Strategic Initiatives
- Approval processes on a cross-functional level
- Cross functional project management
- Performance management
- Alignment of budget, planning, compensation
- Project Based Organization
- Balanced Scorecard
- MTH Office
- Centralized Planning
- Centralized Initiative Management
- Cross Functional Management structure

1997 – 1999
- Cross functional project management
- Performance management
- Alignment of budget, planning, compensation

2000 - 2004
- Strategy focused
- Committee mandates
- Communication of strategy
- Many challenges over the years, organic growth towards OSM

Stage II: Forming the Pieces to drive Change
Many challenges over the years, organic growth towards OSM

→ Three stages to our OSM Development

Stage III: Bringing the pieces together to Coordinate and Accelerate Change

2000 - 2004
- Strategy focused
- Committee mandates
- Communication of strategy

2005
- Efficient controls over risk
- Visibility to OSM
- Additional CEO support

- Business Plans
- Governance
- Strategy Maps

ERM Program
Formalize OSM
Many challenges over the years, organic growth towards OSM

Three stages to our OSM Development

I. Recognize
   - Tracking execution of CEO decisions
   - Financial Controls Management by objective

II. Form
   - 1993 - 1995
     - Controls and monitoring of Strategic Initiatives
   - 1995 - 1996
     - Approval processes on a cross-functional level
   - 1997 – 1999
     - Cross functional project management
     - Performance management
     - Alignment of budget, planning, compensation
   - 2000 - 2004
     - Strategy focused
     - Committee mandates
     - Communication of strategy

III. Coordinate & Accelerate
   - 2005
     - Efficient controls over risk
     - Visibility to OSM
     - Additional CEO support
   - 2000 - 2004
     - Communication of strategy
   - 1997 – 1999
     - Cross functional project management
     - Performance management
     - Alignment of budget, planning, compensation
   - 1995 - 1996
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   - Business Plans
   - Governance
   - Strategy Maps
   - ERM Program
   - Formalize OSM

I. Recognize
II. Form
III. Coordinate & Accelerate
Our OSM development has brought many benefits

- **Strategy Focused**
  - EMB focuses more on performance and strategy reviews

- **Alignment**
  - Better alignment of priorities across entire organization

- **Awareness**
  - Company’s strategy and direction is more transparent at all levels of organization

- **Accountability & Measurement**
  - Employees empowered to contribute and are rewarded

- **Efficiency – “Breaking down Silos”**
  - Cross functional management breaks down silos and increases efficiency
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Key Messages to Take Away

✓ “Change” starts the process

✓ Direct Access to and support of CEO is crucial for success

✓ Must have a high level of integration with the CFO Office

✓ Flexibility - the ability to change and adapt over time

✓ Decommission the “old” way of doing things without long overlaps

✓ Remember the Pearl! Build the office organically to meet the demands of the business and management environment
Thank you!