

[Translation: Please note that the following purports to be a translation from the Japanese original Notice of Convocation of the 106th Annual General Meeting of Shareholders for the business term ended December 31, 2016 of Chugai Pharmaceutical Co., Ltd. prepared for the convenience of shareholders outside Japan with voting rights. However, in the case of any discrepancy between the translation and the Japanese original, the latter shall prevail.]

NOTICE OF CONVOCAION OF THE 106th ANNUAL GENERAL MEETING OF SHAREHOLDERS FOR THE BUSINESS TERM ENDED DECEMBER 31, 2016

Date and Time 10:00 a.m. on March 23, 2017 (Thursday)

Place Royal Park Hotel - 3F Royal Hall
1-1, Nihonbashi-Kakigara-cho 2-chome, Chuo-ku, Tokyo

Matters for Resolution	First Proposal	Appropriation of Surplus
	Second Proposal	Election of Four (4) Directors
	Third Proposal	Election of One (1) Audit & Supervisory Board Member
	Fourth Proposal	Determination of the Amount and Contents of Remuneration for Granting Restricted Stock to Directors

Innovation all for the patients

CHUGAI PHARMACEUTICAL CO., LTD.

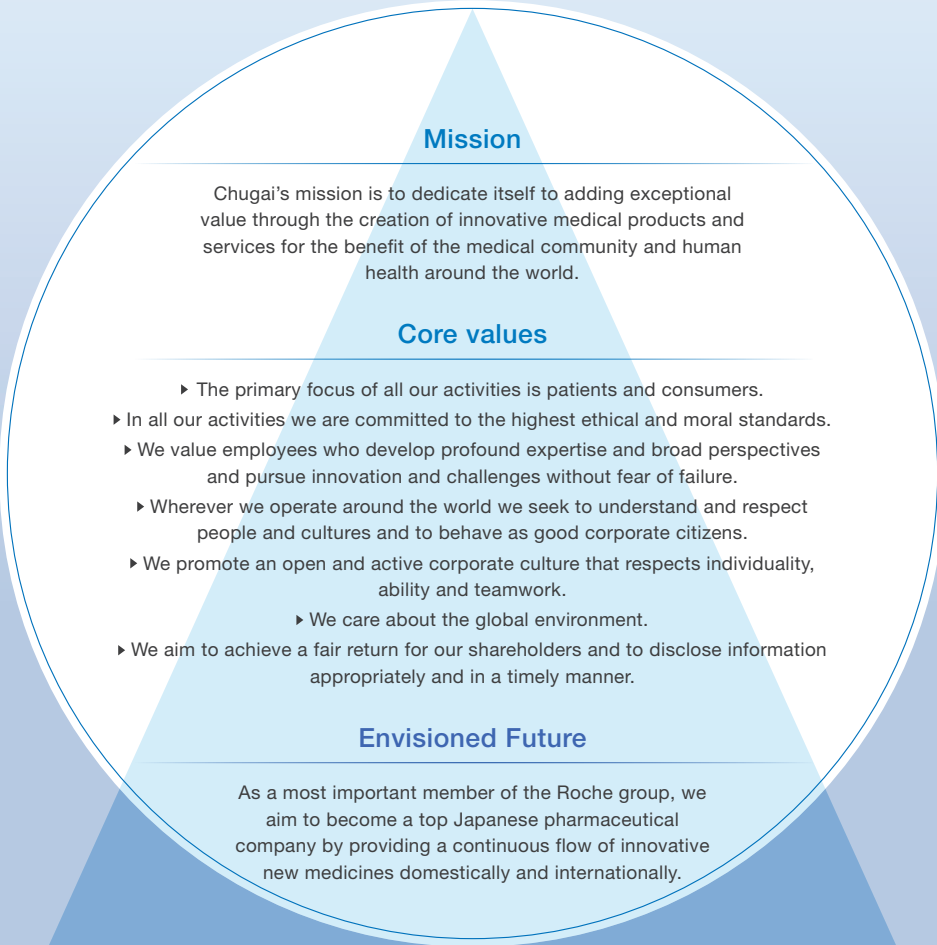
Securities Code: 4519

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Mission Statement

The Chugai Group upholds its mission statement—which consists of its mission, its core values and its envisioned future—in order to be a business that meets a diverse array of stakeholder expectations as it realizes its corporate responsibility to society. It is on the basis of the business philosophy “Innovation all for the patients” that the Chugai Group conducts its business operations.



To the shareholders

Chugai Pharmaceutical's mission is to add exceptional value through the creation of innovative medical products and services for the benefit of the medical community and human health around the world. We undertake actions that give the highest priority to patients and consumers.

Oncology, renal diseases, and bone and joint diseases are positioned as Chugai's strategic areas. We are undertaking measures to create original and innovative drugs, both in Japan and overseas, particularly to address unmet medical needs, where the level of pharmaceutical contribution and satisfaction concerning patient treatment remains low. This is accomplished by effectively leveraging the resources of the Roche Group, while we pursue cutting-edge biopharmaceutical, antibody, and molecular targeted research technologies—areas that constitute Chugai's greatest strengths—as well as chemical synthesis technology.

Through these measures, we aim to become a top pharmaceutical company with global-level capabilities. We have a responsibility and a mission to succeed as a pharmaceutical industry leader. Our goal as a leader is to provide outstanding corporate value by meeting the expectations of our stakeholders—including patients and their families as well as healthcare professionals—as we work to acquire the trust of society. We will continue to meet challenges in order to fulfill our mission, with all our activities firmly based on a strong ethical foundation as a company engaged in businesses related to the lives of human beings. We ask for the further support of our shareholders in our endeavors.

February 2017

Representative Director
Chairman & CEO



February 22, 2017

To the Shareholders:

**NOTICE OF CONVOCAION OF
THE 106th ANNUAL GENERAL MEETING OF SHAREHOLDERS
FOR THE BUSINESS TERM ENDED DECEMBER 31, 2016**

You are cordially invited to attend the 106th Annual General Meeting of Shareholders of Chugai Pharmaceutical Co., Ltd. (the “Company”) for the Business Term ended December 31, 2016. The meeting will be held as described below.

If you are unable to attend the meeting, you can exercise your voting rights in writing or via electromagnetic method (the Internet, etc.). Please review the following reference documents concerning the General Meeting of Shareholders, and exercise your voting rights no later than 5:30 p.m. on March 22, 2017 (Wednesday).

Yours very truly,

Osamu Nagayama
Chairman & CEO
CHUGAI PHARMACEUTICAL CO., LTD.
1-1, Nihonbashi-Muromachi 2-chome,
Chuo-ku, Tokyo

PARTICULARS

- | | |
|-------------------------|--|
| 1. Date and Time | : 10:00 a.m. on March 23, 2017 (Thursday) |
| 2. Place | : Royal Park Hotel - 3F Royal Hall
1-1, Nihonbashi-Kakigara-cho 2-chome, Chuo-ku, Tokyo
(Please refer to the map attached at the end of this document
(translation omitted).) |

3. Purpose :

Matters for Reporting The Business Report for the Business Term (January 1, 2016 to December 31, 2016), Non-Consolidated Financial Statements for the Business Term, Consolidated Financial Statements for the Business Term, and the Report on the Results of Audit of the Consolidated Financial Statements by the Accounting Auditor and Audit & Supervisory Board

Matters for Resolution

First Proposal	Appropriation of Surplus
Second Proposal	Election of Four (4) Directors
Third Proposal	Election of One (1) Audit & Supervisory Board Member
Fourth Proposal	Determination of the Amount and Contents of Remuneration for Granting Restricted Stock to Directors

– End –

Handling of voting rights exercised for multiple times:

- If you exercised your voting right both in writing and via the Internet, the voting right exercised via the Internet shall be treated as the valid vote.
- If you exercised your voting right for multiple times via the Internet, the last vote shall be treated as the valid vote.

Disclosure via the Internet

- The following items have been posted on the Company's website in accordance with laws and regulations and Article 15 of the Articles of Incorporation of the Company; and the documents of such items are accordingly not contained in this Notice of Convocation.
 - Company's Stock Acquisition Rights, etc. in the Business Report
 - Consolidated Statement of Changes in Equity and Notes to the Consolidated Financial Statements in the Consolidated Financial Statements
 - Non-Consolidated Statement of Changes in Shareholders' Equity and Notes to the Non-Consolidated Financial Statements in the Non-Consolidated Financial StatementsThe Business Report was audited by the Audit & Supervisory Board Members, Consolidated Financial Statements and Non-Consolidated Financial Statements were audited by the Audit & Supervisory Board Members and the Accounting Auditor. The above-mentioned items posted on the Company's website were audited just as the documents contained in this Notice of Convocation.
- In cases where items in the Reference Document for the General Meeting of Shareholders, Business Report, Non-Consolidated Financial Statements and Consolidated Financial Statements are amended, the Company will announce the updated documents on the Company's website.

CHUGAI
website:

<https://www.chugai-pharm.co.jp/english/ir>

First Proposal : Appropriation of Surplus

The Company aims to pay out stable dividends to shareholders with a target payout ratio at a rate equal to 50% of the average of the Core EPS⁽¹⁾, taking into account the Company’s strategic demand for funds for investment and performance forecasts. In addition, internal reserves will be used to make investments for further growth in existing strategic fields as well as pursuing future business opportunities to further enhance corporate value. Based on the policy mentioned above, the Company would like to declare appropriation of surplus for the fiscal year under review as described below:

⁽¹⁾ Core EPS is diluted earnings per share attributable to the Company’s shareholders after deduction of non-Core profit or loss items determined by the Company.

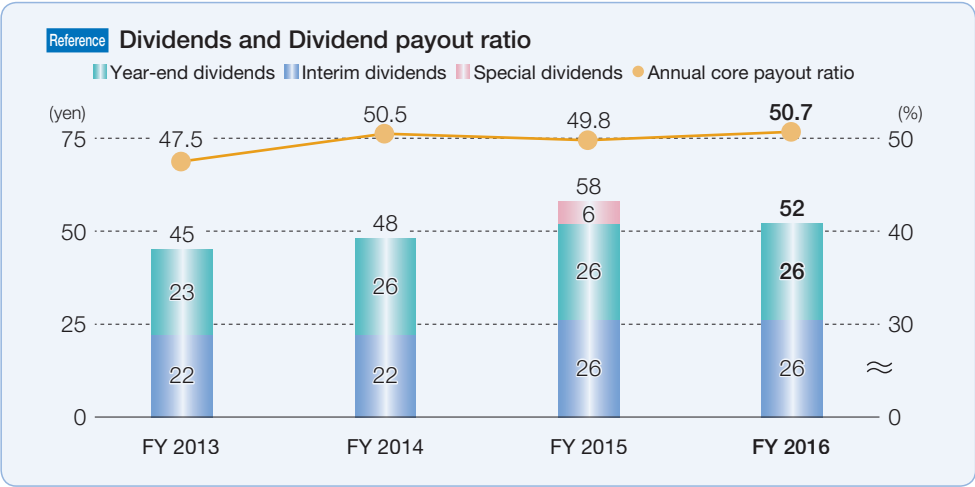
Matters concerning Year-End Dividends

- (1) Type of dividend assets:

Cash
- (2) Allotment of dividend assets to the shareholders and the amount thereof:

JPY26 per share of common stock of the Company
Total: JPY14,202,966,336
Total dividend for the business term 2016 is JPY52 per share, as an interim dividend of JPY26 per share has been paid.
- (3) Date when dividends of surplus become effective:

March 24, 2017



Second Proposal : Election of Four (4) Directors

Out of all the ten (10) Directors, the term of office of two (2) Directors, Masayuki Oku and Daniel O'Day will expire and two (2) Directors, Yutaka Tanaka and Franz B. Humer will resign at the closing of this Annual General Meeting of Shareholders. Therefore, it is proposed that four (4) Directors be elected.

The election of candidates for Directors is deliberated at the Appointment Committee, a voluntary advisory board, and determined at the Board of Directors.

The candidates for Directors are as follows:

Composition of the Board of Directors after the election (planned)

	No.	Name	Current Position and Responsibility Important Concurrent Positions
Executive Directors	— *	Osamu Nagayama	Representative Director, Chairman & CEO Chairman (Outside Director) of SONY CORPORATION
	— *	Motoo Ueno	Representative Director, Deputy Chairman, Corporate Social Responsibility, Audit
	— *	Tatsuro Kosaka	Representative Director, President & COO Outside Director of ASAHI GROUP HOLDINGS, LTD.
	— *	Yoshio Itaya	Director, Executive Vice President, CFO, General Manager of Finance Supervisory Div., in charge of IT Supervisory Div.
Non-Executive Directors	— *	Yasuo Ikeda	Outside Director Vice-Chairman of the Board of Directors, Musashi Academy of the Nezu Foundation Specially Appointed Professor of Waseda University Professor Emeritus of Keio University
	1	Reappointment Masayuki Oku	Outside Director Chairman of Sumitomo Mitsui Financial Group, Inc. Outside Director of Kao Corporation Outside Director of KOMATSU LTD. Outside Director of Panasonic Corporation Outside Corporate Auditor of Nankai Electric Railway Co., Ltd. Non-Executive Director of The Bank of East Asia (China)
	2	New appointment Yoichiro Ichimaru	Outside Director Executive Advisor of TOYOTA MOTOR CORPORATION Representative Director, Chairman of Aioi Nissay Dowa Insurance Co., Ltd.
	3	New appointment Christoph Franz	Chairman of the Board of Directors of Roche Holding Ltd. Member of the Board of Directors of Stadler Rail (Switzerland) Member of the Board of Directors of Zurich Insurance Group Ltd (Switzerland)
	4	Reappointment Daniel O'Day	Director CEO of Roche Pharmaceuticals Division, Member of the Corporate Executive Committee, Member of the Genentech (USA) Board of Directors
	— *	Sophie Kornowski-Bonnet	Director Head of Roche Partnering, Member of Roche's Enlarged Corporate Executive Committee

Reappointment

Candidate for reappointment as Director

New appointment

Candidate for new appointment as Director

Outside

Outside Director or candidate for Outside Director

Independent

Independent officer who has been or will be registered to the Tokyo Stock Exchange Inc.

*The term of office of Directors of the Company is two (2) years. Osamu Nagayama, Motoo Ueno, Tatsuro Kosaka, Yoshio Itaya, Yasuo Ikeda and Sophie Kornowski-Bonnet were elected and assumed office as Directors at the 105th Annual General Meeting of Shareholders held in March 2016.

No.

1

Reappointment

Outside

Independent

Masayuki Oku

(December 2, 1944)

(72 years old)



Shares of the Company Owned	0 shares
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Number of years served as Director (as at the closing of this Annual General Meeting of Shareholders)	2 years
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Attendance at the meetings of the Board of Directors	100% (9 out of 9)
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Summary of Career, Position, Responsibility, and Important Concurrent Positions

Apr. 1968	Entered into the Sumitomo Bank, Ltd. ("SB")
Jun. 1994	Director of SB
Nov. 1998	Managing Director of SB
Jun. 1999	Managing Director and Managing Executive Officer of SB
Jan. 2001	Senior Managing Director and Senior Managing Executive Officer of SB
Apr. 2001	Senior Managing Director and Senior Managing Executive Officer of Sumitomo Mitsui Banking Corporation ("SMBC")
Dec. 2002	Senior Managing Director of Sumitomo Mitsui Financial Group, Inc. ("SMFG")
Jun. 2003	Deputy President of SMBC
Jun. 2005	Chairman of SMFG (to present)
Jun. 2005	President and Chief Executive Officer of SMBC
Mar. 2015	Director of the Company (to present)

- **Important concurrent positions** Chairman of Sumitomo Mitsui Financial Group, Inc.
Outside Director of Kao Corporation
Outside Director of KOMATSU LTD.
Outside Director of Panasonic Corporation
Outside Corporate Auditor of Nankai Electric Railway Co., Ltd.
Non-Executive Director of The Bank of East Asia (China)

● Reasons for nominating the candidate for Outside Director

- Mr. Masayuki Oku provides advice to and supervises the Company concerning management based on his extensive knowledge and experience, etc. as a corporate manager. Therefore, the Company is of the judgment that he will be able to continue to execute his duties as Outside Director appropriately in the future as well.

● Other special notes

- He satisfies the requirements for an independent officer stipulated by the Tokyo Stock Exchange, Inc. and Independence Standards established by the Company. The Company has registered him as an independent officer to the Tokyo Stock Exchange, Inc. The Independence Standards established by the Company are stated in page 17.
- Panasonic Corporation, where he has served as an Outside Director from June 2008 to the present, received an order to pay a fine imposed by the European Commission in December 2012 for violation of antitrust laws in relation to its cathode ray tubes business. Panasonic Corporation subsequently filed a suit against the European Commission, but in July 2016 the Panasonic's appeal was dismissed by the Court of Justice of the European Union and the fine became final. Additionally, in December 2016, Panasonic Corporation reached a settlement with the European Commission to pay a fine regarding a violation of antitrust laws in the secondary batteries business. However, at the time of these violations, he had not assumed the post as Outside Director of Panasonic Corporation. In relation to the violation of the antitrust laws in the automotive components business, the company came to an agreement to pay penalties with the United States Department of Justice in July 2013 and with the Competition Bureau of Canada in February 2014, respectively. He had not been aware of such violation activities until they were identified. Nevertheless, he executed his duties from the point of view of compliance at all times, through meetings of the Board of Directors of Panasonic Corporation, etc. and strove to prevent the execution of any business in violation of laws and regulations. He affirmed the measures taken by the company toward prevention of recurrence upon identification of such violations.
- The Company has no special interests with him.

No.

2

New appointment

Outside

Independent

Yoichiro Ichimaru
(October 10, 1948)
(68 years old)

Shares of the
Company Owned

0 shares

Summary of Career, Position, Responsibility, and Important Concurrent Positions

Jul. 1971	Entered into Toyota Motor Sales Co., Ltd.
Jun. 2001	Member of the Board of Directors of TOYOTA MOTOR CORPORATION ("TMC")
Jun. 2003	Managing Executive Officer of TMC
Jun. 2005	Senior Managing Director of TMC
Jun. 2009	Representative Director, Executive Vice President of TMC
Jun. 2009	Corporate Auditor of Aioi Insurance Co., Ltd.
Oct. 2010	Corporate Auditor of Aioi Nissay Dowa Insurance Co., Ltd.
Jun. 2011	Senior Corporate Auditor of TMC
Jun. 2015	Executive Advisor of TMC (to present)
Jun. 2015	Representative Director, Chairman of Aioi Nissay Dowa Insurance Co., Ltd. (to present)

- **Important concurrent positions** Executive Advisor of TOYOTA MOTOR CORPORATION
Representative Director, Chairman of Aioi Nissay Dowa Insurance Co., Ltd.

● Reasons for nominating the candidate for Outside Director

- The Company is of the judgment that Mr. Yoichiro Ichimaru will be able to provide advice to and supervise the Company concerning management as Outside Director appropriately, based on his extensive knowledge and experience, etc. as a corporate manager.

● Other special notes

- He satisfies the requirements for an independent officer stipulated by the Tokyo Stock Exchange, Inc. and Independence Standards established by the Company. The Company plans to designate him as an independent officer provided by the Tokyo Stock Exchange, Inc., and to register him as such to the Tokyo Stock Exchange, Inc. The Independence Standards established by the Company are stated in page 17.
- The Company has no special interests with him.


No.
3

New appointment

Christoph Franz

(May 2, 1960)

(56 years old)



Shares of the Company Owned

0 shares

Summary of Career, Position, Responsibility, and Important Concurrent Positions

Jan. 1990	Entered into Deutsche Lufthansa AG
Jul. 1994	Member of the Executive Board and CEO of Passenger Transport Division of Deutsche Bahn AG
Jul. 2004	CEO of Swiss International Air Lines AG
Jun. 2009	Deputy Chairman of the Executive Board of Deutsche Lufthansa AG
Jan. 2011	Chairman of the Executive Board and CEO of Deutsche Lufthansa AG
Mar. 2014	Chairman of the Board of Directors of Roche Holding Ltd. (to present)

● Important concurrent positions

Chairman of the Board of Directors of Roche Holding Ltd.
Member of the Board of Directors of Stadler Rail (Switzerland)
Member of the Board of Directors of Zurich Insurance Group Ltd (Switzerland)

● Reasons for nominating the candidate for Director

- The Company is of the judgment that Dr. Christoph Franz will be able to provide advice to and supervise the Company concerning management as Director appropriately, based on his extensive knowledge and experience, etc. as a corporate manager of global companies.

● Other special notes

- The relationship between the Company and the Roche Group, where he serves as a member of the Board of Directors, is as stated in “1. Overview of Consolidated Business Activities (10) Parent Company and Principal Subsidiaries” of the Business Report.

No.

4

Reappointment

Daniel O'Day
(May 26, 1964)
(52 years old)



Shares of the Company Owned	0 shares
Number of years served as Director (as at the closing of this Annual General Meeting of Shareholders)	4 years
Attendance at the meetings of the Board of Directors	88.9% (8 out of 9)

Summary of Career, Position, Responsibility, and Important Concurrent Positions

Apr. 1987	Entered into Roche Pharma (USA)
Jan. 1995	Director of Human Resources, Roche Pharma (USA)
Nov. 1996	Director of Product Marketing, Roche Pharma (USA)
May 1998	Business Unit Head of Roche Arthritis and Respiratory, Roche Pharma Headquarters
Jul. 1999	Lifecycle Leader of Roche Tamiflu, Roche Pharma Headquarters
Apr. 2001	Head of Corporate Planning, Nippon Roche K.K.
Apr. 2003	General Manager of Roche Pharma (Denmark)
Apr. 2006	President & CEO of Roche Molecular Diagnostics
Jan. 2010	COO of Roche Diagnostics Business, Member of the Corporate Executive Committee
Sep. 2012	COO of Roche Pharmaceuticals Division, Member of the Corporate Executive Committee, Member of the Genentech (USA) Board of Directors
Mar. 2013	Director of the Company (to present)
Jun. 2016	CEO of Roche Pharmaceuticals Division, Member of the Corporate Executive Committee, Member of the Genentech (USA) Board of Directors (to present)

● **Important concurrent positions** CEO of Roche Pharmaceuticals Division, Member of the Corporate Executive Committee, Member of the Genentech (USA) Board of Directors

● Reasons for nominating the candidate for Director

• Mr. Daniel O'Day provides advice to and supervises the Company concerning management from a global perspective, while acting as a member of the executive committee of Roche Group. Therefore, the Company is of the judgment that he will be able to continue to execute his duties as Director appropriately in the future as well.

● Other special notes

• The relationship between the Company and the Roche Group (including Genentech), where he serves as a member of the executive committee, is as stated in "1. Overview of Consolidated Business Activities (10) Parent Company and Principal Subsidiaries" of the Business Report.

(Notes) 1. Conclusion of a limited liability agreement

The Company has provided in its Articles of Incorporation that it may enter into a limited liability agreement (the "Agreement") with a Director ("Director (excluding Executive Director, etc.)," as provided in Article 423, Paragraph 1 of the Japanese Companies Act, and the limit of liability in the Agreement shall be equal to the minimum liability limit stipulated by laws and regulations. The Company has entered into the Agreement with Mr. Masayuki Oku and Mr. Daniel O'Day, and plans to sustain such Agreement with them if they are elected as Directors. In addition, the Company plans to enter into the Agreement with Mr. Yoichiro Ichimaru and Dr. Christoph Franz if they are elected as Directors.

2. The ages of the candidates are as of this Annual General Meeting of Shareholders.

Third Proposal : Election of One (1) Audit & Supervisory Board Member

Out of all the four (4) Audit & Supervisory Board Members, the term of office of Kunitoshi Watanabe will expire at the closing of this Annual General Meeting of Shareholders. Therefore, it is proposed that one (1) Audit & Supervisory Board Member be elected.

The election of candidate for Audit & Supervisory Board Member was determined by the Board of Directors with the consent of the Audit & Supervisory Board.

The candidate for Audit & Supervisory Board Member is as follows:

Composition of the Audit & Supervisory Board after the election (planned)

No.	Name	Current Position
		Important Concurrent Positions
— *	Shunji Yokoyama	Full-time Audit & Supervisory Board Member
○	New appointment Mamoru Togashi	Vice President, General Manager of Human Resources Supervisory Div.
— *	Hisashi Hara Outside	Outside Audit & Supervisory Board Member General Representative of the Asia-Pacific region, The Law Office of Nagashima Ohno & Tsunematsu
— *	Takaaki Nimura Outside Independent	Outside Audit & Supervisory Board Member Representative of Nimura Certified Public Accountant Office Outside Director and Chairman of Audit Committee of SONY CORPORATION

New appointment Candidate for new appointment as Audit & Supervisory Board Member

Outside Outside Audit & Supervisory Board Member

Independent Independent officer for notification to the Tokyo Stock Exchange, Inc.

* The term of office of Audit & Supervisory Board Members of the Company is four (4) years. Shunji Yokoyama was elected and assumed office as Audit & Supervisory Board Member at the 104th Annual General Meeting of Shareholders held in March 2015, and Hisashi Hara and Takaaki Nimura were elected and assumed office as Audit & Supervisory Board Members at the 105th Annual General Meeting of Shareholders held in March 2016, respectively.

New appointment

Mamoru Togashi
(August 12, 1956)
(60 years old)



Shares of the
Company Owned

1,140 shares

Summary of Career, Position, and Important Concurrent Positions

Jul. 1982	Entered into the Company
Oct. 2004	President of Chugai Business Support Co., Ltd.
Mar. 2006	General Manager of Corporate Communication Dept. of the Company
Jul. 2009	General Manager of Human Resources Management Dept. of the Company
Jan. 2010	Vice President, General Manager of Human Resources Supervisory Div., Human Resources Management Dept. of the Company
Apr. 2016	Vice President, General Manager of Human Resources Supervisory Div. of the Company (to present)

● Reasons for nominating the candidate for Audit & Supervisory Board Member

- Mr. Mamoru Togashi has served as Manager and Vice President mainly in corporate administration departments. The Company is of the judgment that he will be able to perform his roles and duties as Audit & Supervisory Board Member appropriately regarding management decision making and status of the business execution of the Company based on his ability to execute appropriate audits with his extensive knowledge and experience, etc.

● Other special notes

- The Company has no special interests with him.

(Notes) 1. Conclusion of a limited liability agreement

The Company has provided in its Articles of Incorporation that it may enter into a limited liability agreement (the "Agreement") with an Audit & Supervisory Board Member, as provided in Article 423, Paragraph 1 of the Japanese Companies Act, and the limit of liability in the Agreement shall be equal to the minimum liability limit stipulated by laws and regulations. If Mr. Mamoru Togashi is elected as Audit & Supervisory Board Member, the Company plans to enter into the Agreement with him.

2. The number of "Shares of the Company Owned" by the candidate shown in the table above includes shares of stock in the Employee Shareholders' Association of the Company.
3. The age of the candidate is as of this Annual General Meeting of Shareholders.

Fourth Proposal : Determination of the Amount and Contents of Remuneration for Granting Restricted Stock to Directors

In order to further clarify the link between remuneration and the Company's business performance and shareholders' value and enhance the Directors' motivation and morale leading to the growth of the business results, remuneration for Directors (excluding Non-Executive Directors) of the Company consists of bonuses payable based on performance for each fiscal year and stock option granted as a long-term incentive linked to mid- and long-term performance (common stock option and stock option as stock-based compensation), in addition to regular remuneration as fixed remuneration. Remuneration for Non-Executive Directors consists solely of regular remuneration as fixed remuneration.

The aggregate amount of regular remuneration and bonuses for Directors of the Company approved at the 96th Annual General Meeting of Shareholders held on March 23, 2007 is no more than JPY750 million per year, and the maximum amount of compensation to be paid to Directors (excluding Non-Executive Directors) in the form of stock options approved at the 98th Annual General Meeting of Shareholders held on March 25, 2009 is JPY275 million per year.

The Company will, as part of the review of the officers' remuneration system, newly grant monetary compensation receivables to Directors (excluding Non-Executive Directors; the "Eligible Directors") of the Company for granting restricted stock, as replacement for the aforementioned stock options, in order to further promote shared value with shareholders and provide an incentive for Directors to increase the Company's sustainable corporate value, intensifying linkage between their remuneration and the mid- and long-term performance much more.

Specifically, the restricted stock consists of the "tenure-based restricted stock" subject to continuous service for certain period as Director of the Company, and the "performance-based restricted stock" subject to the attainment of the Company's mid- and long-term business performance target on top of the aforementioned continuous service.

Based on this Proposal, compensation for the Eligible Directors for granting restricted stock shall be monetary compensation receivables, the total amount of which shall not exceed JPY345 million per year for both "tenure-based restricted stock" and "performance-based restricted stock" as deemed reasonable in light of the aforementioned objectives, in addition to the existing regular remuneration and bonuses, for which approval of shareholders is hereby requested. Subject to the aforementioned annual aggregate limit, the amount equivalent to around 50% of the current compensation in the form of stock options (common stock option and stock option as stock-based compensation on a combined basis, not exceeding JPY275 million per year) will be the maximum amount of compensation for granting restricted stock for the "tenure-based restricted stock," while for the "performance-based restricted stock," the maximum amount thereof will be calculated by multiplying the amount equivalent to 50% of the current compensation in the form of stock options (common stock option and stock option as stock-based compensation on a combined basis, not exceeding JPY275 million per year) by 150%, which is the maximum achievement level of the performance targets as separately set out by the Board of Directors of the Company (See (4) below).

In addition, subject to the approval of this Proposal, stock options for Directors shall be discontinued except for those already granted, and the Company will not issue new stock acquisition rights as stock options for Directors.

Specific timing of granting restricted stock and allocation to each Eligible Director shall be decided by the Board of Directors.

Currently, the number of Directors is ten (10) (including five (5) Non-Executive Directors, three (3) of whom are Outside Directors), of whom five (5) are the Eligible Directors. If the Second Proposal “Election of Four (4) Directors” is approved as originally proposed, the number of Directors will be ten (10) (including six (6) Non-Executive Directors, three (3) of whom are Outside Directors), of whom four (4) will be the Eligible Directors.

Based on the resolution of the Board of Directors of the Company, the Eligible Directors shall make in-kind contribution of all monetary compensation receivables to be granted according to this Proposal, and shall, in return, receive the Company’s common shares that will be issued or disposed of by the Company. The total number of common shares of the Company to be issued or disposed of in this way shall not exceed 165,000 shares per year. (In the event of stock split, reverse stock split or any other unavoidable circumstance with respect to the Company’s common shares, involving the necessity to adjust the number of shares, the number of shares to be issued or disposed of may be reasonably adjusted.)

The amount to be paid per share shall be the closing price of common stock of the Company on the Tokyo Stock Exchange on the business day immediately preceding the date of the resolution by the Board of Directors (or the closing price on the transaction day immediately prior thereto if no transaction is made on such business day). For the purpose of such issuance or disposal of common shares of the Company, a restricted stock allotment agreement including the general outline and the following contents (the “Allotment Agreement”) shall be concluded between the Company and each Eligible Director.

(1) Transfer Restriction Period

The Eligible Directors shall not transfer, create a security interest on, or otherwise dispose of the common shares of the Company allotted under the Allotment Agreement (the “Allotted Shares”) during a time period set out preliminarily by the Board of Directors of the Company (the “Transfer Restriction Period”), which shall be between three and five years from the date of such allotment according to the Allotment Agreement. (This restriction shall be hereinafter referred to as the “Transfer Restriction.”)

(2) Treatment of the Allotted Shares in the event of retirement of the Eligible Director

If the Eligible Director retires from his or her position as Director of the Company prior to the expiry of the Transfer Restriction Period, the Company shall naturally acquire the Allotted Shares free of charge, unless such retirement is due to expiry of the term of office, death or other reasons deemed justifiable by the Board of Directors of the Company.

(3) Removal of the Transfer Restriction with respect to tenure-based restricted stock

As for “tenure-based restricted stock,” the Company shall remove the Transfer Restriction with respect to the Allotted Shares at the expiry of the Transfer Restriction Period on condition that the Eligible Director has served as Director of the Company continuously during the Transfer Restriction Period; provided, however, that the number of the Allotted Shares subjected to the removal of the Transfer Restriction and the timing of such removal shall be reasonably adjusted as appropriate in the event that the Eligible Director retires from his or her position as Director of the Company prior to the expiry of the Transfer Restriction Period due to expiry

of the term of office, death or other reasons deemed justifiable by the Board of Directors of the Company as specified in (2) above.

(4) Removal of the Transfer Restriction with respect to performance-based restricted stock

As for “performance-based restricted stock,” the Company shall remove the Transfer Restriction with respect to the number of the Allotted Shares to be decided according to the achievement level of the performance targets, including Total Shareholders Return, which have preliminarily been set out by the Board of Directors of the Company, at the expiry of the Transfer Restriction Period on condition that the Eligible Director has served as Director of the Company continuously during the Transfer Restriction Period; provided, however, that the number of the Allotted Shares subjected to the removal of the Transfer Restriction and the timing of such removal shall be reasonably adjusted as appropriate in the event that the Eligible Director retires from his or her position as Director of the Company prior to the expiry of the Transfer Restriction Period due to expiry of the term of office, death or other reasons deemed justifiable by the Board of Directors of the Company as specified in (2) above.

(5) Free of charge acquisition at the expiry of the Transfer Restriction Period

At the expiry of the Transfer Restriction Period (or at the time of the removal of the Transfer Restriction if the Transfer Restriction is removed prior to the expiry of the Transfer Restriction Period), the Company shall naturally acquire free of charge the Allotted Shares other than those for which the Transfer Restriction is removed based on the provisions in (3) or (4) above.

(6) Treatment of the Allotted Shares in the event of organizational restructuring, etc.

Notwithstanding the provision in (1) above, if a matter concerning the organizational restructuring, etc. of the Company, such as a merger agreement to make the Company the non-surviving party of the merger, or a share exchange agreement or share transfer plan to make the Company a wholly-owned subsidiary of another party, is approved at the General Meeting of Shareholders (or by the Board of Directors of the Company if such organizational restructuring, etc. does not require the approval of the General Meeting of Shareholders of the Company) during the Transfer Restriction Period, the Company shall remove, based on the resolution of the Board of Directors of the Company, the Transfer Restriction of the Allotted Shares at a date prior to the effective date of such organizational restructuring, etc. The number of such Allotted Shares shall be reasonably determined in consideration of the time period from the date of the beginning of the Transfer Restriction Period to the date of the approval of such organizational restructuring, etc. In this case, as of the time immediately after the removal of the Transfer Restriction, the Company shall naturally acquire free of charge the Allotted Shares for which the Transfer Restriction is not removed.

(7) Other matters to be determined by the Board of Directors

Besides the aforementioned matters, the Allotment Agreement shall prescribe matters to be determined by the Board of Directors, including the methods of indicating intention and sending notification under the Allotment Agreement and procedures to revise the Allotment Agreement.

Reference Status of Corporate Governance of Chugai

Corporate Governance System

Chugai will adopt “Company with an Audit & Supervisory Board” as its corporate organizational structure under the Companies Act in order to ensure effective oversight of directors from an independent and objective standpoint.

Chugai will perform important managerial decision-making and supervise the execution of business through the Board of Directors, and audit the directors’ performance of duties and other matters through the Audit & Supervisory Board and its Members, who are independent of the Board of Directors.

In addition, Chugai will adopt the executive officer system in order to separate managerial decision-making and supervision from the execution of business and work towards swifter executive decision-making. The Board of Directors will delegate to the Executive Committee, which is to consist of executive directors and executive officers, the decision-making and execution of all business not determined by the Board of Directors itself.

Furthermore, Chugai will establish the Appointment Committee and the Compensation Committee as advisory boards to the Board of Directors, so as to secure managerial transparency.

Board of Directors

The Board of Directors is to consist of persons with diverse knowledge, experience and skills, and it must be ensured that the Board as a whole has the necessary expertise and skills and is of appropriate diversity and size. In addition, the Board of Directors will establish and disclose independence standards aimed at ensuring effective independence of independent directors, taking into consideration the independence criteria set by the Tokyo Stock Exchange, and appoint at least two independent outside directors.

Appointment of directors

The Board of Directors will select as director candidates individuals with the knowledge and experience to manage Chugai properly, fairly and efficiently, and sufficient public trust.

The Board of Directors will select outside director candidates from among the managers of other companies, medical experts and others with academic experience, and similar persons, taking into account experience, knowledge, and expertise, so that the outside directors may appropriately give advice on the management of Chugai and carry out the supervisory function.

Audit & Supervisory Board

The Audit & Supervisory Board will consist of members with the necessary knowledge, experience, and specialist skills, and will ensure the balance of expertise of that Board as a whole. One of the outside Audit & Supervisory Board Members must possess significant knowledge, experience and expertise in finance and accounting.

Appointment of Audit & Supervisory Board Members

The Board of Directors will select as candidates for the Audit & Supervisory Board Members persons with the knowledge and experience to appropriately audit managerial decision-making and the execution of business.

The candidates for the outside Audit & Supervisory Board Members will be selected from among experts with rich knowledge and experience in accounting, law and similar fields.

Appointment Committee

As an advisory board to the Board of Directors, the Appointment Committee will deliberate on the selection of director candidates and candidates to succeed the executive directors, including the CEO. The Appointment Committee will consist of the CEO and at least three outside committee members, including at least one independent outside director, appointed by the Board of Directors from among the outside directors and persons with experience sitting on an appointment committee.

Compensation Committee

As an advisory board to the Board of Directors, the Compensation Committee will deliberate on remuneration policy and the remuneration of individual directors.

The Compensation Committee will consist of at least three outside committee members, including at least one independent outside director, appointed by the Board of Directors from among the outside directors and persons with experience as outside directors.

Coordination between outside directors and Audit & Supervisory Board Members

Chugai will hold regular information-sharing meetings between independent outside directors and Audit & Supervisory Board Members for the purpose of obtaining the information necessary for active discussion at Board of Directors meetings, and enhancing mutual coordination.

Excerpt from “Chugai Pharmaceutical Co., Ltd. Basic Corporate Governance Policy.” Please visit the following website for details.

<https://www.chugai-pharm.co.jp/english/profile/pdf/eBasicCorporateGovernancePolicy.pdf>

Independence Standards

Chugai will judge outside officers (Outside Directors and Outside Audit & Supervisory Board Members) that do not fall under any of the following to be independent officers (independent Outside Directors and independent Outside Audit & Supervisory Board Members) with no risk of a conflict of interests with Chugai's general shareholders:

- (1) a person who is currently or has been in the past ten years an executive (see note 1) of Chugai or any of its subsidiaries (collectively, the "Chugai Group");
- (2) a person who is currently or has been in the past five years an executive of the parent company or any sister company of Chugai;
- (3) a person for whom the Chugai Group is a major business partner (see note 2) or an executive of that person;
- (4) a major business partner (see note 2) of the Chugai Group or an executive of that business partner;
- (5) a major lender (see note 3) of the Chugai Group or an executive of that lender;
- (6) a consultant, accounting professional, or legal professional who receives a large amount of money or other such assets (see note 4) other than officer remuneration from the Chugai Group (including any person belonging to a corporation, partnership, or other such organization that receives such assets);
- (7) a major shareholder (see note 5) of Chugai or an executive of that shareholder;
- (8) an executive of a company for which the Chugai Group is a major shareholder;
- (9) an executive of a company that engages a director or Audit & Supervisory Board Member (regardless of whether full or part time) from the Chugai Group or an executive of the parent company or any subsidiary of such company;
- (10) a director or other executive of a corporation, partnership, or other such organization that receives contributions or aid exceeding a certain amount (see note 6) from the Chugai Group;
- (11) an accounting auditor of the Chugai Group or any person belonging to an auditing corporation that is an accounting auditor of the Chugai Group; and
- (12) a close relative (see note 7) of any person (limited to those in material positions (see note 8)) who falls under any of (1) through (11) above.

Note 1: "Executive" means an executive director, executive officer, corporate officer, or other such employee or the like.

Note 2: "Major business partner" means a business partner whose transactions with the Chugai Group in any business year within the past five years total 2% or more of the consolidated sales of that business partner or the Chugai Group.

Note 3: "Major lender" means a lender from whom the Chugai Group's borrowings at the end of the business year exceed 2% of the Chugai Group's consolidated total assets at the end of that business year.

Note 4: "Large amount of money or other such assets" means, in any business year within the past five years, money or other such assets in excess of the greater of (a) ten million yen annually or (b) 2% of the total annual income of the person receiving the money or other such assets.

Note 5: "Major shareholder" means a shareholder directly or indirectly holding 10% or more of total voting rights in any business year within the past five years.

Note 6: "Contributions or aid exceeding a certain amount" means, in any business year within the past five years, contributions or aid exceeding the greater of (a) ten million yen annually or (b) 2% of the total annual income of the person receiving the contributions or aid.

Note 7: "Close relative" means a spouse or a relative within the second degree of kinship.

Note 8: "Those in material positions" means directors (excluding outside directors), corporate officers, and executive officers, or any person with authority equivalent to any of these.

End

memo

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1 Overview of Consolidated Business Activities

(1) Asset and Income Status, etc.

a) Asset and Income Status

Item	FY 2013	FY 2014	FY 2015	FY 2016
Revenues (JPY billion)	423.7	461.1	498.8	491.8
Operating profit (JPY billion)	78.7	75.9	86.8	76.9
Net income attributable to Chugai shareholders (JPY billion)	50.9	51.0	61.1	53.6
Total assets (JPY billion)	697.2	739.5	787.4	806.3
Total equity (JPY billion)	573.2	597.8	627.3	646.5
Basic earnings per share (JPY)	93.47	93.53	112.00	98.12
Equity per share attributable to Chugai shareholders (JPY)	1,049.47	1,092.90	1,146.17	1,181.67

b) Core Results Status

Item	FY 2013	FY 2014	FY 2015	FY 2016
Gross profit (JPY billion)	237.6	244.2	260.0	245.0
Operating profit (JPY billion)	79.9	77.3	90.7	80.6
Net income (JPY billion)	52.6	53.0	64.9	56.8
Net income attributable to Chugai shareholders (JPY billion)	51.6	51.9	63.7	56.1
Core EPS (JPY)	94.69	95.04	116.42	102.50
Research and development (JPY billion)	74.1	80.6	81.9	82.6

- (Notes) 1. Starting from the fiscal year 2013, the Company adopts Core results, which are the results after deducting gains or losses related to non-Core events of the Company from IFRS results, as indicators to manage recurring profits generated from the pharmaceutical business, the Company's core business. Core results are used by the Company as an internal performance indicator, for explaining the status of recurring profits both internally and externally, and as the basis for payment-by-results such as a return to shareholders.
2. Core EPS is diluted earnings per share attributable to Chugai shareholders after deduction of non-Core profit or loss items determined by the Company.

c) Other Significant Performance Indicators

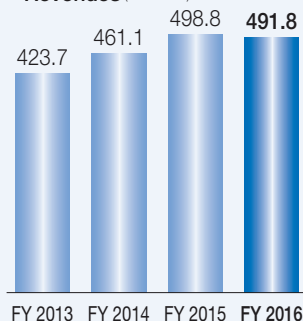
Item	FY 2013	FY 2014	FY 2015	FY 2016
Ratio of equity attributable to Chugai shareholders (%)	82.0	80.6	79.5	80.1
Ratio of net income to equity attributable to Chugai shareholders (ROE) (%)	9.3	8.7	10.0	8.4
Price-earnings ratio (times)	24.88	31.69	37.86	34.19
Dividends per share (JPY)	45.00	48.00	58.00	52.00
Core dividend payout ratio (%)	47.5	50.5	49.8	50.7

(Notes)1. The amount of dividends per share for the fiscal year 2016 is conditional on the approval of the First Proposal (Appropriation of Surplus) proposed at the 106th Annual General Meeting of Shareholders for the Business Term ended December 31, 2016, and the dividend payout ratio has been calculated based on this amount.

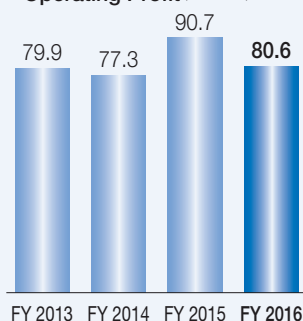
2. "Core dividend payout ratio" stated above represents dividend per share against Core EPS.

Reference Key Performance Indicators (Core Results)

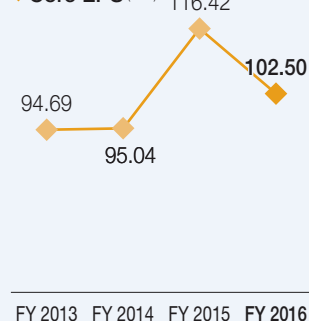
■ Revenues (JPY billion)



■ Operating Profit (JPY billion)



◆ Core EPS (JPY)



(2) Developments and Results of Business Activities

a) Overview of Business Activities

During the fiscal year under review, the pharmaceutical industry continued to find itself in a harsh environment amid a host of challenges, under the policies to reduce medical expenditures by each country in conjunction with growing budget deficits, and the increasingly extensive prescription of generic drugs, and Japanese government escalated pressure to curb drug costs, along with the special (huge-seller) re-pricing.

Meanwhile, the Chugai Group (the “Group”) formulated its new Medium-Term Business Plan “IBI 18” in January, 2016, and commenced new initiatives to aim to transform into a company that continues making progress globally through demonstration of its competitive strengths by leveraging its strategic alliance with Roche. In the course of the “IBI 18,” the Group will aim to materialize its vision of a top Japanese pharmaceutical company, for further breakthrough based on the two priority themes of “acquisition and implementation of competitiveness at a global top level” and “selection and concentration strategy for acceleration of growth.”

Under such circumstances, the Group, during the fiscal year under review, attained excellent achievements in the area of research and development, including the designation of two drugs as Breakthrough Therapy by the U.S. Food and Drug Administration (FDA), along with the steady progress in the development of the most promising growth drivers. The Group also made forward-looking investments such as conclusion of the agreement for purchasing the commercial land in Totsuka ward in Yokohama city, which shall serve as the strategic basis for developing research and development bases, and conclusion of the comprehensive collaboration agreement with Osaka University Immunology Frontier Research Center (IFReC), with a view to developing innovative drugs.

Financial results for the fiscal year under review amounted to revenues of JPY491.8 billion, operating profit of JPY80.6 billion and net income of JPY56.8 billion (all results are on a Core basis).

Reference Adoption of Core Results

Starting from the fiscal year 2013, the Company adopts Core results as indicators to manage recurring profits generated from the pharmaceutical business, the Company’s core business. Core results are the results after deducting gains or losses related to non-Core events of the Company from IFRS results. The Company uses Core results for explaining the status of recurring profits both internally and externally, and also as the basis for payment-by-results such as a return to shareholders.

Core results are determined from the IFRS results by adjusting the following items.

Amortization and impairment of intangible assets (for example, lump-sum and milestone payments pertaining to products under development in-licensed from third parties)

Merger impacts attributable to acquisitions of companies or businesses

Non-recurring items such as expenses for restructuring, environmental measures and litigation, and disasters

Tax effect for the above items and income attributable to non-controlling interests

b) Revenues

(JPY billion)

Item	Actual performance for the fiscal year under review	Actual performance for the previous fiscal year	Year-on-year difference for the same period (%)
Product sales	472.7	468.4	up 0.9%
Excluding Tamiflu	459.2	460.2	down 0.2%
Japan	379.7	378.0	up 0.4%
Oncology field	220.3	215.7	up 2.1%
Bone and joint diseases field	86.1	79.4	up 8.4%
Renal diseases field	41.1	45.4	down 9.5%
Transplant, immunology and infectious diseases field	13.7	15.9	down 13.8%
Other fields	18.5	21.7	down 14.7%
Overseas	79.5	82.2	down 3.3%
Tamiflu	13.5	8.2	up 64.6%
Royalties and other operating income	19.1	30.4	down 37.2%
Revenues	491.8	498.8	down 1.4%

Domestic sales (excluding Tamiflu)

Domestic sales excluding Tamiflu (an anti-influenza agent) were JPY379.7 billion (an increase of 0.4% year on year) due to the steady growth in sales of new products and major products in oncology and bone and joint diseases fields, which absorbed the effects of the NHI drug price revisions including special (huge-seller) re-pricing of Avastin (an anti-VEGF humanized monoclonal antibody, anti-cancer agent).

Oncology products sales were JPY220.3 billion (an increase of 2.1% year on year). This increase was due primarily to the steady growth in sales of the products launched in 2014, which are Alecensa (an ALK inhibitor, anti-cancer agent) and Kadcyla (an anti-HER2 antibody – tubulin polymerization inhibitor conjugate), in addition to the strong sales of mainstay

products such as Rituxan (an anti-CD20 monoclonal antibody), Perjeta (an anti-HER2 humanized monoclonal antibody, anti-cancer agent) and Xeloda (an anti-cancer agent) which obtained an approval for the indication of adjuvant treatment for gastric cancer in 2015. Sales of Avastin amounted to JPY92.1 billion (a decrease of 1.8% year on year) due to the impact of special (huge-seller) re-pricing, despite robust sales on a volume basis.

Bone and joint diseases products sales were JPY86.1 billion (an increase of 8.4% year on year). This increase was due to the steady sales of mainstay products such as Ediol (an activated vitamin D₃ agent), a top brand in the oral therapeutic agent for osteoporosis, Actemra (a humanized anti-human IL-6 receptor monoclonal antibody), and Bonviva (a

bisphosphonate osteoporosis agent).

Renal diseases products sales amounted to JPY41.1 billion (a decrease of 9.5% year on year) due to a decline in sales of Oxarol (an agent for secondary hyperparathyroidism) resulting from the effects of competition including generic products.

In the area of transplant, immunology, and infectious diseases products (excluding Tamiflu), sales were JPY13.7 billion (a decrease of 13.8% year on year) due to a substantial decline in sales of Pegasys (a peginterferon- α -2a agent), as a result of the newly launched third party products.

Tamiflu

As regards Tamiflu, sales for ordinary use amounted to JPY12.0 billion (an increase of 46.3% year on year), while sales to government stockpiles etc. was JPY1.5 billion.

Overseas sales

Overseas sales were JPY79.5 billion (a decrease of 3.3% year on year), due mainly to the decline in the export price of Actemra to Roche and a decrease in sales of Neutrogin (a recombinant human G-CSF) as a result of the effects of foreign exchange rate fluctuations and intensified competition, despite the increase in exports of Alecensa.

c) Financial Results

Consolidated financial highlights (IFRS results)

Revenues for the fiscal year under review were JPY491.8 billion (a decrease of 1.4% year on year), operating profit for the fiscal year under review was JPY76.9 billion (a decrease of 11.4% year on year), and net income for the fiscal year under review was JPY54.4 billion (a decrease of 12.8% year on year). These results include non-Core items, such as amortization of intangible assets of JPY1.3 billion,

impairment of intangible assets of JPY2.4 billion, and other items, which are excluded from the Core results managed by the Company.

Consolidated financial highlights (Core results)

(JPY billion)

Item	Actual performance for the fiscal year under review	Actual performance for the previous fiscal year	Year-on-year difference for the same period (%)
Revenues	491.8	498.8	down 1.4%
Gross profit	245.0	260.0	down 5.8%
Operating profit	80.6	90.7	down 11.1%
Net income	56.8	64.9	down 12.5%

Revenues for the fiscal year under review were JPY491.8 billion (a decrease of 1.4% year on year), due to the decrease in royalties and other operating income.

Of the revenues, sales excluding Tamiflu were JPY459.2 billion (a decrease of 0.2% year on year). Domestic sales were comparable to the levels of the previous fiscal year at JPY379.7 billion (an increase of 0.4% year on year) due to the steady growth in sales of new products and major products, which absorbed the effects of the NHI drug price revisions in April. Although income associated with Actemra and others remained robust, royalties and other operating income amounted to JPY19.1 billion (a decrease of 37.2% year on year) due to the recording of smaller amount of one-time income such as milestone income for the fiscal year under review.

Cost to sales ratio was 52.2%, 1.2 percentage points deterioration compared with the previous fiscal year, due mainly to the depreciation of the yen, the NHI drug price revisions and a decline in the export unit price of Actemra. As a result, gross profit amounted to JPY245.0 billion (a decrease of 5.8% year on year).

Expenditures were JPY164.5 billion (a decrease of 2.8% year on year). Marketing and distribution expenses were JPY69.8 million (a decrease of 6.6% year on year) due to the effects of foreign exchange rate fluctuations and a decrease of various expenditures, while research and development expenses amounted to JPY82.6 billion (an increase of 0.9% year on year), due to increased research and development activities in line with the progress in development projects, despite the effects of foreign exchange rate fluctuations. General and administration expenses amounted to JPY12.1 billion (a decrease of 5.5% year on year), due to a decrease of various expenditures.

As a consequence, Core operating profit was JPY80.6 billion (a decrease of 11.1% year on year).

We have filed the Advance Pricing Arrangement covering the certain transactions with F. Hoffmann-La Roche Ltd., to Japanese and Swiss tax authorities in accordance with a tax treaty between Japan and Switzerland. Both tax authorities concluded the tentative agreement that will decrease taxable income of Chugai and increase that of Roche. As a result of this agreement, we will transfer a part of the deducted amount of corporate tax etc. to Roche as the estimated tax payable for Roche, in accordance with the license agreement between Chugai and Roche, and also posted JPY3.5 billion of adjustment from transfer pricing taxation as other expense.

As a result, Core net income was JPY56.8 billion (a decrease of 12.5% year on year).

d) R&D Activities

In Japan and overseas, the Group is actively engaged in prescription pharmaceutical R&D activities and is working to develop innovative products with global applications. In Japan, the Group has established research bases in Fuji Gotemba (Shizuoka Prefecture) and Kamakura (Kanagawa Prefecture), which are collaborating to develop new pharmaceuticals, and its research facilities in Ukima (Tokyo) which conducts industrialization research. Overseas, Chugai Pharma USA, Inc. (United States); Chugai Pharma Europe Ltd. (United Kingdom); Chugai Pharma Science (Beijing) Co., Ltd. (China); and Chugai Pharma R&D Taiwan Ltd. (Taiwan) are engaged in clinical development and submission of applications in their respective countries. Chugai Pharmabody Research Pte. Ltd. (Singapore) and jointly controlled business C&C Research Laboratories (South Korea) are engaged in pharmaceutical research and development.

As for clinical development activities, the Group saw progress as described below.

Clinical development activities in Japan

(i) Oncology

- We obtained approval for Avastin for the indication of cervical cancer in May, 2016. We also started a Phase II study (expected indication: malignant pleural mesothelioma) in July, 2016.
- We started Phase III multinational study for the engineered anti-PDL1 monoclonal antibody RG7446 (atezolizumab) for the expected indication of breast cancer in May, and small cell lung cancer in June, 2016.
- We started Phase I multinational study for the anti-glypican-3 humanized monoclonal antibody GC33/RG7686 for the expected indication of hepatocellular carcinoma, involving concurrent administration of RG7446 (atezolizumab) in August, 2016.
- We started Phase I study at overseas location for the anti-glypican 3/CD3 bispecific antibody ERY974 for the indication of solid tumors in August, 2016.
- We started Phase I study for the IDO Inhibitor RG6078 for the indication of solid tumors, involving concurrent administration of RG7446 (atezolizumab) in September, 2016.
- We decided to discontinue development of Kadcyra for gastric cancer in consideration of the fact that the primary endpoint was not achieved in the Phase III multinational study (the GATSBY study).
- We decided to discontinue development of the glycoengineered Type II Anti-CD20 monoclonal antibody GA101/RG7159 for the indication of indolent non-Hodgkin's lymphoma, in consideration of the results of the Phase III multinational study (the GOYA study).

(ii) Bone and Joint Diseases

- We obtained approval for Bonviva (oral) for the indication of osteoporosis in January, and launched its sales in April, 2016.

(iii) Autoimmune Diseases

- We filed an application for approval for Actemra for the expected indication of large-vessel vasculitis in November, 2016. We also filed an application for approval at overseas in November, for the indication of giant cell arteritis.

(iv) Neurology

- We started a Phase I study (expected indication: Alzheimer's disease) for anti-amyloid-beta humanized monoclonal antibody RG7412 in September, 2016.
- We decided to discontinue development of the GABAA α 5 receptor antagonist RG1662 with respect to the improvement of intellectual ability in individuals with Down syndrome, in consideration of results from overseas studies conducted by Roche.

(v) Others

- We started a Phase III multinational study (expected indication: non-inhibitor hemophioia A) for the anti-FIXa/FX bispecific antibody ACE910/RG6013 (emicizumab) in September, 2016.
- We started Phase I/II multinational studies (expected indication: paroxysmal nocturnal hemoglobinuria) for the anti-C5 monoclonal antibody SKY59/RG6107 in November, 2016.
- We decided to discontinue development of the anti-IL13 humanized monoclonal antibody RG3637 for the indication of asthma, in consideration of the results of the Phase III multinational study (the LAVOLTA II study).

Reference Status of clinical development (as of December 31, 2016)

Development code	Expected indication	Location	Stage (Time)					
Generic name / Product name / Dosage form			Phase I	Phase II	Phase III	Filing	Approval	Launch
Oncology field								
AF802 / RG7853 alectinib / Alecensa / Oral	Non-small cell lung cancer (NSCLC) [post-crizotinib]	Europe						
	Non-small cell lung cancer [1st line] (additional indication)	Over-seas						
RG435 bevacizumab / Avastin / Injection	Cervical cancer (additional indication)	Japan						(May)
	Renal cell carcinoma (additional indication)	*						
	Malignant pleural mesothelioma (additional indication)	Japan						
RG1273 pertuzumab / Perjeta / Injection	Breast cancer (adjuvant) (additional indication)	*						
	Gastric cancer (additional indication)	*						
RG3502 trastuzumab emtansine / Kadcyla / Injection	Breast cancer (adjuvant) (additional indication)	*						
GA101 / RG7159 obinituzumab / Product name undetermined / Injection	Indolent non-Hodgkin's lymphoma (NHL)	*						
RG7446 atezolizumab / Product name undetermined / Injection	NSCLC	*						
	NSCLC (adjuvant)	*						
	Small cell lung cancer (SCLC)	*						
	Urothelial carcinoma	*						
	Muscle invasive urothelial carcinoma (adjuvant)	*						
	Renal cell carcinoma	*						
	Breast cancer	*						
GC33 / RG7686 codrituzumab / Product name undetermined / Injection	Hepatocellular carcinoma	*						
CKI27 Generic name undetermined / Product name undetermined / Oral	Solid tumors	Japan						
		Over-seas						
RG7596 polatuzumab vedotin / Product name undetermined / Injection	NHL	Japan						
RG7604 taselisib / Product name undetermined / Oral	Solid tumors	Japan						
RG7440 ipatasertib / Product name undetermined / Oral	Solid tumors	Japan						
ERY974 Generic name undetermined / Product name undetermined / Injection	Solid tumors	Over-seas						
RG6078 Generic name undetermined / Product name undetermined / Oral	Solid tumors	Japan						

In principle, completion of first dose is regarded as the start of clinical studies in each phase.

* : Multinational study

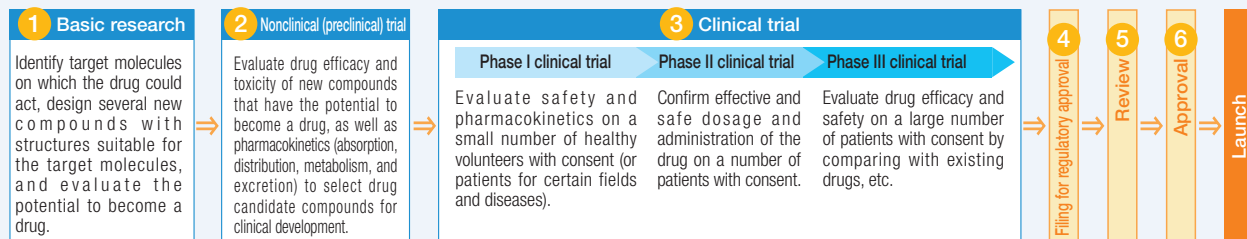
** : Phase I/II clinical study

*** : Development at licensee (Overseas: Galderma Pharma S.A.; domestic: Maruho Co., Ltd.)

Change in status in January 2016 and thereafter

Development code Generic name / Product name / Dosage form	Expected indication	Location	Stage (Time)					
			Phase I	Phase II	Phase III	Filing	Approval	Launch
Bone and Joint Diseases field								
RG484 ibandronic acid / Bonviva / Oral	Osteoporosis	Japan						(April)
ED-71 eldecalcitol / Edirol / Oral	Osteoporosis	China						
Renal Diseases field								
EOS789 Generic name undetermined / Product name undetermined / Oral	Hyperphosphatemia	Japan						
Autoimmune Diseases field								
MRA / RG1569 tocilizumab / Actemra / Injection	Large-vessel vasculitis (additional indication)	Japan						
	Giant cell arteritis (additional indication)	Over-seas						
	Systemic sclerosis (additional indication)	*						
SA237 Generic name undetermined / Product name undetermined / Injection	Neuromyelitis optica	*						
Central Nervous System field								
RG1450 gantenerumab / Product name undetermined / Injection	Alzheimer's disease	*						
RG7412 crenezumab / Product name undetermined / Injection	Alzheimer's disease	Japan						
Other fields								
ACE910 / RG6013 emicizumab / Product name undetermined /Injection	Hemophilia A (Inhibitor)	*						
	Hemophilia A (Non-inhibitor)	*						
RG3637 lebrikizumab / Product name undetermined / Injection	Idiopathic pulmonary fibrosis	*						
CIM331 *** nemolizumab / Product name undetermined /Injection	Pruritus in dialysis	Japan						
	Atopic dermatitis	*						
URC102 Generic name undetermined / Product name undetermined / Oral	Gout	Over-seas						
PCO371 Generic name undetermined / Product name undetermined / Oral	Hypoparathyroidism	Over-seas						
SKY59 / RG6107 Generic name undetermined / Product name undetermined / Injection	Paroxysmal nocturnal hemoglobinuria	*			**			

Process of new drug development It takes as long as 9 to 17 years to develop a new drug, from the discovery of candidate compounds to the launch as a pharmaceutical product.



Reference Main Products by Therapeutic Field

Avastin®	Anti-cancer agent
Herceptin®	Anti-cancer agent
Rituxan®	Anti-cancer agent
Tarceva®	Anti-cancer agent
Xeloda®	Anti-cancer agent
Perjeta®	Anti-cancer agent
Kadcyla®	Anti-cancer agent
Alecensa®	Anti-cancer agent
Neutrogin®	Agent for neutropenia associated with chemotherapy
Zelboraf®	Anti-cancer agent

Actemra®	Rheumatoid arthritis agent
Edirol®	Osteoporosis agent
Suvenyl®	Agent for joint function improvement
Bonviva®	Osteoporosis agent
Alfarol®	Agent that improves calcium and bone metabolism



Avastin®

Oncology field

JPY220.3 billion
58.0%

Bone and joint diseases field

JPY86.1 billion
22.7%



Actemra®

Renal diseases field

JPY41.1 billion
10.8%

Other fields

JPY32.2 billion
8.5%



(including transplant, immunology and infectious diseases field)

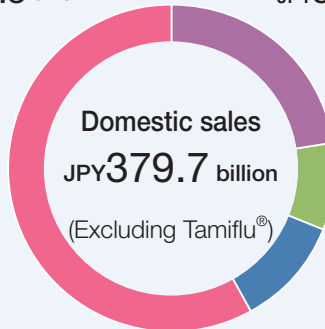
Sigmart®



Mircera®

Mircera®	Renal anemia agent
Oxarol®	Agent for secondary hyperparathyroidism in hemodialysis patients
Epogin®	Renal anemia agent

CellCept®	Immunosuppressant
Pegasys®	Peginterferon- α -2a agent
Copegus®	Anti-viral agent
Sigmart®	Anti-anginal agent
Tamiflu®	Anti-influenza agent



(3) Capital Expenditures

The Group continuously undertakes capital investments to improve and streamline its manufacturing facilities, as well as to enhance and strengthen R&D capabilities. Capital expenditures during the fiscal year under review were JPY19.4 billion. Such expenditures mainly consisted of investments for the purchase of commercial land in Totsuka ward, Yokohama city, the high-mix low-volume production of antibody API for initial commercial products at the Ukima Plant (expansion of production capacity by means of new construction of UK3), the high-mix low-volume production of pre-filled syringe form products (installment of tray filler) at the Utsunomiya Plant as well as the strengthening of solid formulation manufacturing facility, etc. (handle quick launch and steady supply) at the Fujieda Plant.

(4) Financing

The Group did not raise any capital through the issuance of corporate bonds nor capital increase, etc. during the fiscal year under review.

(5) Assignment of Business, etc.

In the fiscal year under review, the Group conducted none of such undertakings as assignment of business, absorption-type company split, incorporation-type company split, acceptance of assignment of business of another company, succession to rights and obligations in connection with business of another juridical person by absorption-type merger or absorption-type company split, or acquisition/disposition of shares, other equity or stock option of another company.

(6) Future Tasks

a) Basic Management Principles

In line with its strategic alliance with the world-leading pharmaceutical company Roche, the Group has established “dedicating itself to creating new values through the provision of innovative medical products and services for the benefit of the medical community and human health around the world” as its mission and “becoming a top Japanese pharmaceutical company which provides a continuous flow of innovative new medicines domestically and internationally” as its fundamental management objective.

As the Group works to achieve these goals, it will carry out its business activities in line with its core values of “putting patients and customers first” and “committing to the highest ethical and moral standards as befits a corporate group involved in the healthcare industry.” Under these basic management principles, the Group is making continuous efforts to pursue innovation in line with the philosophy “Innovation all for the patients.” In addition, by progressively increasing business efficiency, the Group is aiming to meet the expectations of patients, medical care professionals, shareholders, and other stakeholders and realize its objective of becoming a top pharmaceutical company.

b) Medium-to-Long-Term Business Strategy and Tasks

Amid increasing needs for pharmaceuticals due to an increase in the world population and progressive demographic graying in each country, how to realize sustainable medical care with limited resources has become a common issue in the world. While the dramatic progress of life sciences and ICT has expanded opportunities to generate innovation for solving medical issues, competition among companies to speedily realize innovation has intensified more than ever. In addition, amid mounting pressure to curb drug costs against the backdrop of financial difficulties in each country, extremely harsh measures to suppress prices are expected to be adopted especially in the Japanese market.

Through its previous Medium-Term Business Plan “ACCEL 15,” the Group has achieved top-class growth in Japan and top share of the domestic oncology market based on numerous innovative new medicines. As for the R&D activities, the Group has also achieved a number of results such as building a strong development pipeline by means of leading-edge in-house drug discovery capabilities, such as antibody engineering technologies, and a wealth of development compounds from Roche. In late-stage development, there are many new leading drug candidates such as ACE910 (emicizumab; expected indication: hemophilia A) discovered in-house and immuno-checkpoint inhibitor RG7446 (atezolizumab) for which development is in progress for several cancer types. These drugs, as the growth

driver, have enabled the Group to make a rapid progress. On the other hand, during the next several years until the new growth driver products make a contribution in earnest, the pace of sales growth is expected to slow down more than before due to substantial drug price reductions for existing major products.

Amid such a mixture of opportunities and threats, the Group formulated its new Medium-Term Business Plan “IBI 18,” which covers the period from fiscal year 2016 through fiscal year 2018, and commenced new initiatives to aim to transform into a company that continues making progress globally through demonstration of its competitive strengths by leveraging its strategic alliance with Roche. The name of the new Medium-Term Business Plan “IBI 18” reflects our commitment to thoroughly pursue innovation captured in the slogan “Innovation Beyond Imagination” toward 2018, the final year of the plan.

The Group will focus on issues in the following fields in line with “IBI 18,” based on the two priority themes of “acquisition and implementation of competitiveness at a global top level” and “selection and concentration strategy for acceleration of growth.”

(i) Drug discovery

The Group has moved ahead with the generation of innovative drugs in both biopharmaceuticals and low-molecular-weight drugs. Efforts in the biopharmaceutical field have been successful, leading to the world’s most-advanced results with respect to the establishment of antibody engineering technologies such as recycling antibody and sweeping antibody technologies. Regarding low-molecular-weight drugs as well, the Group has successfully supplemented its own accumulated technologies with Roche’s compound library to achieve a dramatic reinforcement of its drug discovery base.

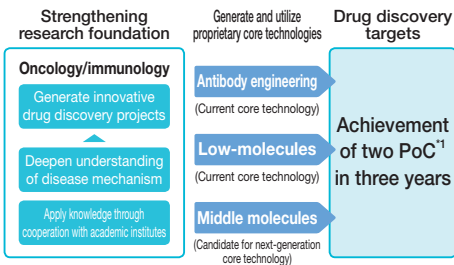
The Group’s drug discovery capabilities have been highly rated worldwide, with three drugs developed by Chugai being designated as Break-through Therapy by the FDA.

Under “IBI 18,” the Group will make priority investment in the world’s leading-edge antibody engineering technologies to further accelerate the generation of innovative R&D projects. In addition, the Group will define technology relating to middle molecules as the candidate for next-generation core technology following low-molecular-weight drugs and antibody engineering, and aim at the



(i) Drug discovery

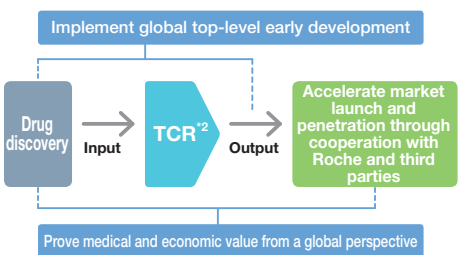
Continuously generate first-in-class and best-in-class projects using innovative technologies



^{*1} PoC (Proof of Concept)
Demonstration that the therapeutic effect conceived in the research stage is effective in humans.

(ii) Development

Promote early market launch and penetration through global top-class TCR and development



^{*2} TCR (Translational Clinical Research)
Clinical research ranging from preclinical research to PoC that clinically verifies the scientific concept that was developed through drug discovery operations.

establishment of technologies through concentrated investment and early generation of R&D projects. Furthermore, through cooperation with academic institutions and collaboration with Roche in the molecular information field, the Group will work to strengthen its research foundation with emphasis on oncology and immunology.

Going forward, the Group will leverage these innovative drug discovery technologies and drug discovery research systems to seek to continuously generate first-in-class and best-in-class pharmaceutical products.

(ii) Development

The Group holds a development pipeline well-stocked with items generated by its own research units as well as items obtained from Roche. The Group has concentrated its own global development resources in the early development stage by utilizing the unique business model resulting from the strategic alliance with Roche, and moved ahead with efficient activities linked to global clinical development trials in domestic development, leading to achievement of a high level of R&D productivity.

Under “IBI 18,” the Group will give top priority to allocating resources to development and

promotion of medical plans for ACE910 (emcizumab) and RG7446 (atezolizumab), which are expected to play a key role in dramatic growth in the future with a view to obtaining early approval and building evidence. In addition, regarding global development projects comprising numerous products developed in-house, the Group will press ahead with early development with global top-class quality and speed under the promotion system for Translational Clinical Research (TCR) centered on three regions, namely Japan, the United States and Europe.

In order to promptly push ahead with global late-stage development of Chugai’s drug discovery and development projects and market penetration in cooperation with Roche, where the Group licenses out products, or a third party, it is extremely vital to prove that Chugai’s projects are attractive and show great potential both medically and economically by the completion phase of early development. To this end, the Group will also make efforts to strengthen the systems for generating and accumulating evidence through collaboration under a strategy for which the functions are integrated from the drug discovery stage.

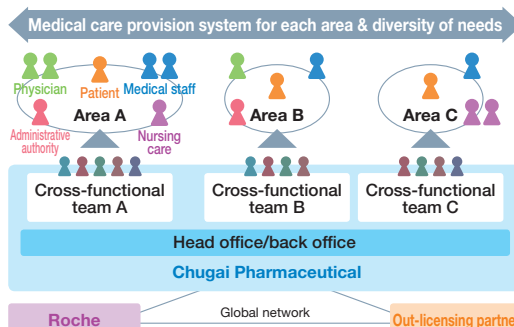
(iii) Drug manufacturing

Global simultaneous development of multiple products and accelerated market launches and strengthening of the system for cost reduction



(iv) Marketing, medical affairs and safety

Provide sophisticated and varied solutions through the collaboration and separation of functions



(v) Companywide initiatives

Accelerating efforts to obtain, nurture and assign human resources, the key to generating innovation and dealing with changes in the environment



(iii) Drug manufacturing

The Group has advanced manufacturing technologies such as biopharmaceuticals and stably supplies highly reliable pharmaceuticals. Going forward, the promotion of global simultaneous development of multiple products and accelerated market launches of many Chugai's creation and R&D projects and the further enhancement of cost competitiveness are critical challenges.

Under "IBI 18," the Group will move ahead with setting up a flexible system for facilities and staff that supplies investigational new drugs in a timely manner for promptly carrying out global simultaneous development of multiple products. At the same time, the Group will work to further strengthen manufacturing technologies for R&D projects with a high degree of difficulty in formulation such as middle molecule drugs.

In addition, in order to realize high-value-added, low-cost manufacturing, the Group will promptly set up a production system that takes an integrated approach to the processes from late-stage development to early-stage production, and enhance quality control, quality assurance and regulatory functions that accurately respond to the trends of major global markets.

(iv) Marketing, medical affairs and safety

Amid the major challenge of providing sustainable medical care, the medical care provision environment has started to change significantly for the realization of optimal patient-centered medical care.

By effectively making the most of Avastin, Actemra, and numerous other promising new products developed in-house or licensed-in from Roche, the Group has been building solid presences in the markets it entered for drugs in the oncology, renal disease, bone and joint disease, rheumatoid disease fields as well as other fields.

Going forward, it will be a critical challenge to further strengthen the system for providing solutions to meet the sophisticated and diversified needs of patients, medical care professionals, and other stakeholders while utilizing such foundation.

Under "IBI 18," the Group will move ahead with providing sophisticated information and resolving

medical issues through the separation and collaboration of functions centered on marketing, medical affairs and safety by conducting activities focused on growth driver products such as Actemra, ACE910 (emicizumab) and RG7446 (atezolizumab) in Japan and overseas. By doing so, the Group will aim to contribute to the realization of optimal medical care and accelerate its growth.

At the same time, the Group will work to establish a system for building and executing strategies by cross-functional teams for each area in order to push ahead with the provision of solutions according to the various characteristics of each country and region.

(v) Companywide initiatives

In dealing with the challenges mentioned so far, human resources that can drive innovation while responding to a rapidly changing environment would be extremely important.

Under "IBI 18," the Group will focus on human resources as the most important theme for strengthening the foundation throughout the Company and move ahead with selecting positions for focusing reinforcement in order to accelerate innovation, while obtaining, nurturing and assigning the right person in the right job.

In addition, the Group will continue to work on ensuring thorough compliance based on the highest ethical and moral standards as befits a corporate group involved in the healthcare industry and pursuing improvement of productivity.

By means of these initiatives, the Group will seek to increase the value it provides to shareholders and all other stakeholders as it proceeds towards its objective of becoming a top pharmaceutical company.

During the period from 2015 through 2018, the final year of the Medium-Term Business Plan, the Group forecasts that it will achieve Core EPS CAGR (at the average constant exchange rate for 2015) at a low single-digit rate (up to 3% range).

(7) Main Businesses (as of December 31, 2016)

The main businesses of the Group include the research, development, manufacturing, sale, importation and exportation of the pharmaceuticals.

(8) Principal Sales Offices, Plants and Research Laboratories (as of December 31, 2016)

[Domestic]

- ① Registered office (5-1 Ukima 5-Chome, Kita-ku, Tokyo)
- ② Headquarters' office (1-1 Nihonbashi-Muromachi 2-Chome, Chuo-ku, Tokyo)

<Sales branches>

- ③ Sapporo Branch
- ④ Sendai Branch
- ⑤ Tokyo Branch 1
- ⑥ Tokyo Branch 2 (Saitama Pref.)
- ⑦ Yokohama Branch
- ⑧ Nagoya Branch
- ⑨ Kyoto Branch
- ⑩ Osaka Branch
- ⑪ Hiroshima Branch
- ⑫ Takamatsu Branch
- ⑬ Fukuoka Branch

<Research & Development>

- ⑭ Fuji-Gotemba Research Laboratories (Shizuoka Pref.)
- ⑮ Kamakura Research Laboratories (Kanagawa Pref.)
- ⑯ Ukima Research Laboratories (Tokyo)

<Production> *Bases of Chugai Pharma Manufacturing Co., Ltd.

- ⑰ Utsunomiya Plant (Tochigi Pref.)
- ⑱ Ukima Plant (Tokyo)
- ⑲ Fujieda Plant (Shizuoka Pref.)

[Overseas]

<Sales subsidiaries/Research & Development>

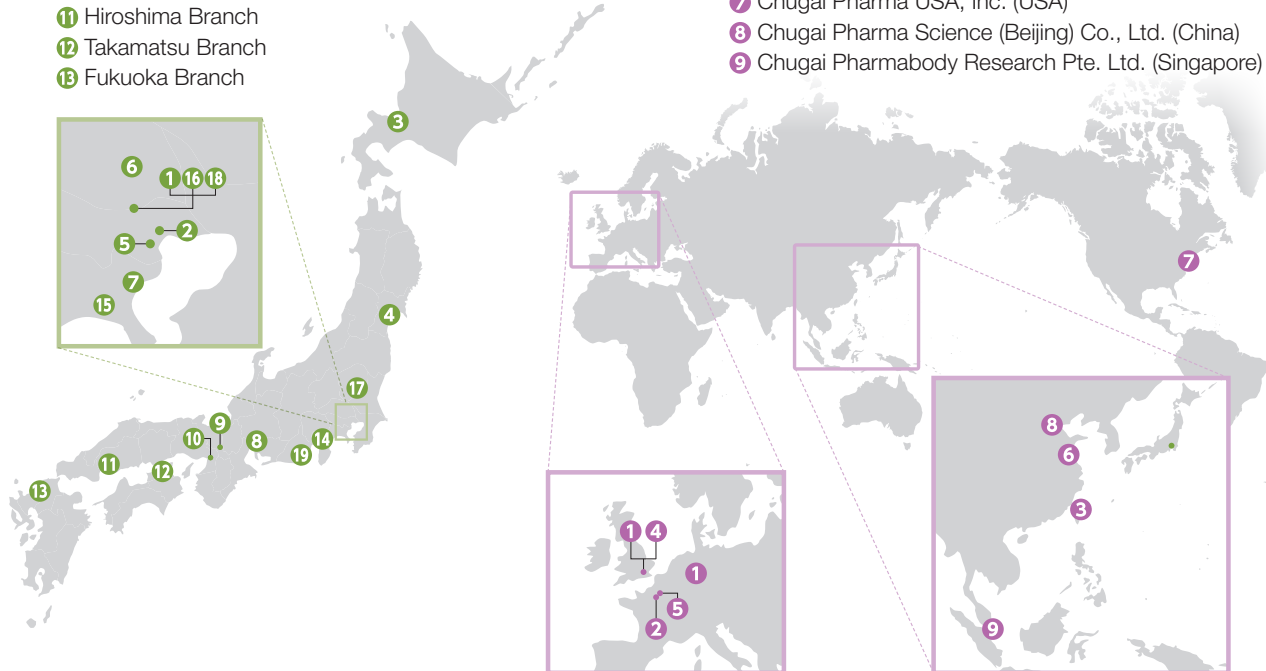
- ① Chugai Pharma Europe Ltd. (UK, Germany)
- ② Chugai sanofi-aventis S.N.C. (France)
- ③ Chugai Pharma Taiwan Ltd. (Taiwan)

<Sales subsidiaries>

- ④ Chugai Pharma U.K. Ltd. (UK)
- ⑤ Chugai Pharma France S.A.S. (France)
- ⑥ Chugai Pharma China Co., Ltd. (China)

<Research & Development>

- ⑦ Chugai Pharma USA, Inc. (USA)
- ⑧ Chugai Pharma Science (Beijing) Co., Ltd. (China)
- ⑨ Chugai Pharmabody Research Pte. Ltd. (Singapore)



(9) Employees (as of December 31, 2016)

Number of employees	Increase/decrease since end of previous fiscal year
7,245 persons	76 persons (Increase)

(Note) The number of employees above represents the number of persons in employment, which excludes individuals seconded from the Group to outside the Group, but includes individuals seconded to the Group from outside the Group.

(10) Parent Company and Principal Subsidiaries**a) Parent Company**

The Company's parent company is Roche Holding Ltd. (Head Office: Switzerland), which holds 335,223,645 shares of the Company (shareholding percentage against total number of issued shares: 59.89%, or 61.36% when calculated based on the total number of issued shares excluding the number of treasury stock), based on a strategic alliance agreement between the two companies. However, the Company and Roche have agreed to cooperate in maintaining the listing of the Company's common stock on the First Section of the Tokyo Stock Exchange.

The aim of this strategic alliance is to establish a new business model that differs from conventional practices in corporate acquisitions and the formation of joint ventures.

Out of the 10 Directors of the Company, 2 Directors concurrently holds a position at the Roche Group. However, these members comprise less than half of management, and thus the Company recognizes that its management independence is ensured.

b) Transactions with Parent Company, etc.

The Company belongs to a corporate group (Roche Group) centering on Roche Holding Ltd., which is the Company's parent company.

Under the Japan Umbrella Rights Agreement signed in December 2001, the Company became the sole pharmaceutical business company of the Roche Group in Japan. The Company also has the preoption for the development and marketing in Japan of all development compounds advanced by Roche.

The Rest of the World Umbrella Rights Agreement (excluding Japan and South Korea) signed in May 2002 was revised and the Amended and Restated Rest of the World Umbrella Rights Agreement (excluding Japan, South Korea and Taiwan) was signed in August 2014. Under this Agreement, Roche has the preoption for the development and marketing of the Company's development compounds in overseas markets, excluding South Korea and Taiwan.

These umbrella agreements were signed with the approval of the Board of Directors.

Pursuant to these agreements, Roche and the Company have signed a series of separate agreements for certain specific products. Depending on the specific circumstances and the terms of the agreement, this may result in payments on an arm's length basis between Roche and the Company, for any or all of the following matters:

- Upfront payments, if a preoption to license a product is exercised
- Milestone payments, dependent upon the achievement of agreed performance targets
- Royalties on future product sales

In its business dealings with the Roche Group, the Company conducts fair transactions on an arm's length basis, and the Directors of the Company are of the judgment that it will not harm the interests of the Company and minority shareholders.

From the perspective of ensuring independence from the parent company, although Roche Holding Ltd. includes the Company in its consolidated accounts, the Company functions as an independent listed company and makes all of its own management decisions based on the principle of self-governance. Important decisions on the management of the Company are made by the Board of Directors, and each Director considers and makes decisions in the best interest of the Company and all of its shareholders including minority shareholders.

c) Principal Subsidiaries

Name of Company	Capital	The Company's Shareholding Percentage	Main Business Activities
Chugai Pharma Manufacturing Co., Ltd.	JPY80 million	100%	Manufacturing of pharmaceuticals
Chugai Pharma Europe Ltd. (UK)	GBP8,677,808	100%	Marketing & Development of pharmaceuticals

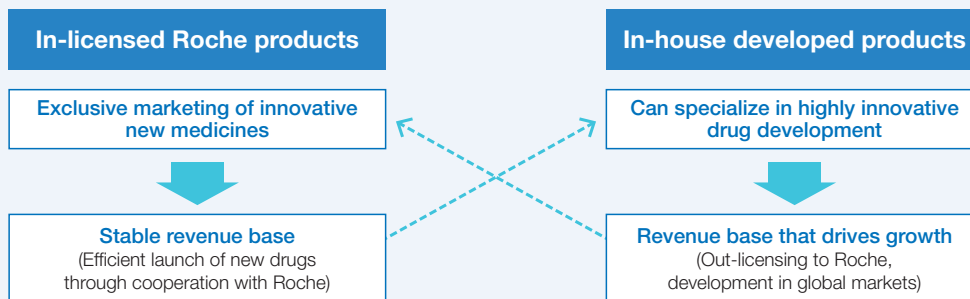
There are 19 consolidated subsidiaries including the aforementioned two principal subsidiaries.

During the fiscal year under review, Chugai Pharma Manufacturing China (Taizhou) Co., Ltd. was established and newly included in the scope of consolidation.

(11) Other Important Matters of the Group

There is no applicable information.

Reference Two growth bases through strategic alliance with Roche



The strategic alliance with Roche allows Chugai to in-license and sell Roche's groundbreaking therapies on an exclusive basis in Japan. This stable earnings foundation allows us to concentrate investment on highly innovative proprietary technologies and drug discovery. Moreover, out-licensing our in-house products to Roche gives us access to global markets, which provides a revenue base that drives growth. Meanwhile, the alliance enables Roche to sell our products – which we create through highly innovative, specialized research – in global markets. It is a win-win relationship.

2 Company's Shares (as of December 31, 2016)

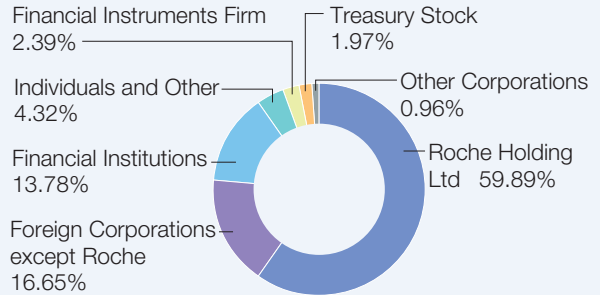
(1) Total Number of Authorized Shares 799,805,050 shares

(2) Total Number of the Issued Shares 559,685,889 shares
(Includes 13,417,953 shares of treasury stock)

(3) Number of Shareholders 27,079 shareholders

(4) Major Shareholders (Top Ten)

Reference Ownership Profile



Name of shareholder	Number of shares held (Thousands of shares)	Shareholding percentage (%)
ROCHE HOLDING LTD.	335,223	61.36
The Master Trust Bank of Japan, Ltd. (Trust Account)	22,271	4.07
Japan Trustee Services Bank, Ltd. (Trust Account)	18,540	3.39
JP MORGAN CHASE BANK 385147	14,288	2.61
JP MORGAN CHASE BANK 380055	4,920	0.90
JP MORGAN CHASE BANK 385632	4,476	0.81
Trust & Custody Services Bank, Ltd. (Security Investment Trust Account)	4,045	0.74
STATE STREET BANK WEST CLIENT - TREATY 505234	3,761	0.68
Chugai Pharmaceutical Employee Shareholders' Association	3,158	0.57
SUMITOMO LIFE INSURANCE COMPANY	3,000	0.54

(Notes) 1. The Company is excluded from the top ten major shareholders listed in the table above, although the Company holds 13,417 thousand shares of treasury stock.

2. Shareholding percentage indicated above was calculated based on the total number of the issued shares excluding the number of treasury stock.

3. Names of the shareholders indicated above are based on the General Shareholder Notifications of the Japan Securities Depository Center, Incorporated.

(5) Other Important Matters Concerning Shares

There is no applicable information.

3 Company's Stock Acquisition Rights, etc.

Posted on the Company's website (<https://www.chugai-pharm.co.jp/english/ir>) in accordance with laws and regulations and Article 15 of the Articles of Incorporation of the Company.

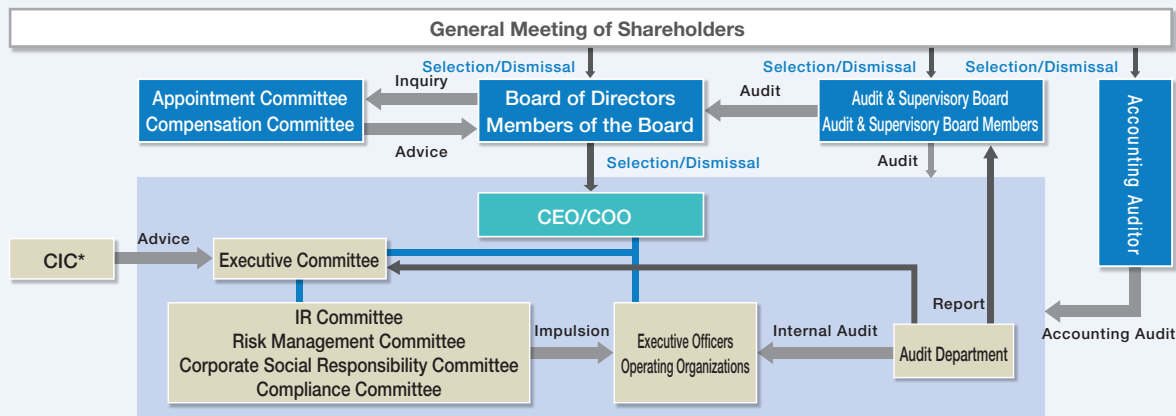
4 Company's Officers

(1) Fundamental Views Relating to Corporate Governance

In line with its strategic alliance with the world-leading pharmaceutical company Roche, the Company has established “dedicating itself to creating new values through the provision of innovative medical products and services for the benefit of the medical community and human health around the world” as its mission and “as a most important member of the Roche Group, becoming a top Japanese pharmaceutical company which provides a continuous flow of innovative new medicines domestically and internationally” as its fundamental management objective.

While being a member of the Roche Group, the Company maintains its managerial autonomy and independence as a publicly listed company and will constantly strive to perfect its corporate governance as established in the “Chugai Pharmaceutical Co., Ltd. Basic Corporate Governance Policy” in order to fulfil the mandate of its many stakeholders appropriately and fairly for the achievement of its basic management objective.

Reference Chugai's Corporate Governance System



※ Chugai International Council (CIC)

Chugai has established the Chugai International Council (CIC) composed of industry leaders and other professionals from around the world. The CIC works to enhance decision-making by providing valuable advice on how to deal with changes in the global business environment and appropriate business conduct.

(2) Directors and Audit & Supervisory Board Members (as of December 31, 2016)

Position		Name	Responsibilities and other important concurrent positions
Executive Directors	Representative Director, Chairman	Osamu Nagayama	CEO Chairman (Outside Director) of SONY CORPORATION
	Representative Director, Deputy Chairman	Motoo Ueno	Corporate Social Responsibility, Audit
	Representative Director, President	Tatsuro Kosaka	COO Outside Director of Asahi Group Holdings, Ltd.
	Director, Executive Vice President	Yoshio Itaya	CFO, General Manager of Finance Supervisory Div., in charge of IT Supervisory Div.
	Director, Executive Vice President	Yutaka Tanaka	In charge of Quality & Regulatory Compliance, Translational Clinical Research, Clinical Development, Drug Safety, Medical Affairs
Non-Executive Directors	Outside Director	Yasuo Ikeda	Vice-Chairman of the Board of Directors, Musashi Academy of the Nezu Foundation Specially Appointed Professor of Waseda University Professor Emeritus of Keio University
	Outside Director	Masayuki Oku	Chairman of Sumitomo Mitsui Financial Group, Inc. Outside Director of Kao Corporation Outside Director of KOMATSU LTD. Outside Director of Panasonic Corporation Outside Corporate Auditor of Nankai Electric Railway Co., Ltd. Non-Executive Director of The Bank of East Asia (China)
	Outside Director	Franz B. Humer	Non-Executive Chairman of Diageo Plc (UK)
	Director	Daniel O'Day	CEO of Roche Pharmaceuticals Division, Member of the Corporate Executive Committee, Member of the Genentech (USA) Board of Directors
	Director	Sophie Kornowski-Bonnet	Head of Roche Partnering, Member of Roche's Enlarged Corporate Executive Committee
Full-time Audit & Supervisory Board Member		Kunitoshi Watanabe	
Full-time Audit & Supervisory Board Member		Shunji Yokoyama	
Outside Audit & Supervisory Board Member		Hisashi Hara	General Representative of the Asia-Pacific region, The Law Office of Nagashima Ohno & Tsunematsu
Outside Audit & Supervisory Board Member		Takaaki Nimura	Representative of Nimura Certified Public Accountant Office Outside Director and Chairman of Audit Committee of SONY CORPORATION

(Notes) 1. Directors and Audit & Supervisory Board Members who retired or were newly appointed during the fiscal year under review are as follows:

<Retired>

Audit & Supervisory Board Member Michio Ishizuka (retirement due to expiration of term in office on March 24, 2016)

<Newly appointed>

Audit & Supervisory Board Member Takaaki Nimura (assumed office on March 24, 2016)

2. Directors Daniel O'Day and Sophie Kornowski-Bonnet are members of the executive committee of the Roche Group (including Genentech (USA)) and are Non-Executive Directors of the Company. The relationship between the Company and the Roche Group is as stated in "1. Overview of Consolidated Business Activities (10) Parent Company and Principal Subsidiaries."

3. Audit & Supervisory Board Member Takaaki Nimura is a Certified Public Accountant and has considerable expertise in finance and accounting.

4. The Company designated Directors Yasuo Ikeda and Masayuki Oku and Audit & Supervisory Board Member Takaaki Nimura as independent officers as stipulated under the Tokyo Stock Exchange guideline, and registered them as such at the exchange.

5. With all Directors (excluding Executive Directors, etc.) and all Audit & Supervisory Board Members, the Company has entered into an agreement that limits their liability if the liability for compensation of damages provided in Article 423, Paragraph 1 of the Companies Act fulfills the requirements set forth in laws and regulations (limited liability agreement). The limit of the liability for compensation of damages under such agreement is the minimum liability limit stipulated by laws and regulations.

6. Effective as of December 31, 2016, Director Franz B. Humer has resigned from his position as Non-Executive Chairman of Diageo Plc (U.K.), at which he served concurrently.

7. Responsibilities and other important concurrent positions indicated above were changed as follows as of January 1, 2017.

	Position	Name	Responsibilities and other important concurrent positions
Before change	Director, Executive Vice President	Yutaka Tanaka	In charge of Quality & Regulatory Compliance, Translational Clinical Research, Clinical Development, Drug Safety, Medical Affairs
After change	Director, Executive Vice President	Yutaka Tanaka	Special Mission for CEO

(3) Outside Corporate Officers

a) Company's Relationship with Companies Where Important Concurrent Positions Are Held

- The Company is engaged in regular banking transactions such as depositing of funds with Sumitomo Mitsui Banking Corporation, a member company of the Sumitomo Mitsui Financial Group, where Director Masayuki Oku concurrently serves.
- In regards to the Law Office of Nagashima Ohno & Tsunematsu, where Audit & Supervisory Board Member Hisashi Hara concurrently serves, although the Company receives legal advices as necessary from counsels other than Audit & Supervisory Board Member Hisashi Hara, the amount of transactions between the said law firm and the Company is negligible.
- There is no relationship to be disclosed between the Company and entities where its Outside Corporate Officers hold concurrent positions, other than those indicated above.

b) Major Activities during the Fiscal Year under Review

	Name	Attendance at Meetings		Comments at Meetings of Board of Directors and Audit & Supervisory Board
		Board of Directors	Audit & Supervisory Board	
Outside Directors	Yasuo Ikeda	9 out of 9 meetings (100%)	—	Made suggestions and advice, etc. on the Company's management as necessary based on his extensive knowledge, experience, etc. as a doctor and professor.
	Masayuki Oku	9 out of 9 meetings (100%)	—	Made suggestions and advice, etc. on the Company's management as necessary based on his extensive knowledge, experience, etc. as a corporate manager.
	Franz B. Humer	6 out of 9 meetings (66.7%)	—	Made suggestions and advice, etc. on the Company's management as necessary based on his extensive knowledge, experience, etc. as a corporate manager of a global pharmaceutical company, etc.
Audit & Supervisory Board Members (Outside)	Hisashi Hara	8 out of 9 meetings (88.9%)	12 out of 12 meetings (100%)	Made comments, etc. on the Company's management as necessary based on his extensive experience, knowledge, etc. as an expert in corporate legal affairs (attorney at law).
	Takaaki Nimura	7 out of 7 meetings (100%)	10 out of 10 meetings (100%)	Made comments, etc. on the Company's management as necessary based on his extensive experience, knowledge, etc. as an expert in corporate accounting (certified public accountant).

(Note) The number of meetings attended by Audit & Supervisory Board Member Takaaki Nimura stated above refers to the number of meetings he attended after his assumption of office on March 24, 2016.

(4) Amount of Remuneration, etc. Paid to Directors and Audit & Supervisory Board Members

The Company has designed the remuneration for Directors and Audit & Supervisory Board Members with the intention of realizing sustainable increase of the Company's corporate value by securing superior human resources and giving appropriate motivation.

In order to further clarify the link between remuneration and the Company's business performance and shareholders' value and enhance the Directors' motivation and morale leading to the growth of the business results, remuneration for Executive Directors from Chugai consists of bonuses payable based on performance for each fiscal year and stock option granted as a long-term incentive linked to mid-and long-term performance (common stock option and stock option as stock-based compensation), in addition to regular remuneration as fixed remuneration. Remuneration for Non-Executive Directors including Outside Directors and Audit & Supervisory Board Members consists solely of regular remuneration as fixed remuneration.

Remuneration for Directors and Audit & Supervisory Board Members is determined within the total amount resolved at the general meeting of shareholders. Remuneration for Directors is determined by the resolution of the Board of Directors, while remuneration for Audit & Supervisory Board Members is determined with the consultation of Audit & Supervisory Members. With respect to remuneration for individual Directors, transparency and objectivity of the decision-making process is secured by deliberating at the Compensation Committee consisting of at least three outside committee members, including one or more independent Outside Director appointed by the Board of Directors.

The retirement benefits system for Executive Directors has been abolished by the resolution passed at the 98th Annual General Meeting of Shareholders held in March 2009, and the retirement benefits system for Non-Executive Directors and Audit & Supervisory Board Members has been abolished by the resolution passed in the 95th Annual General Meeting of Shareholders held in March 2006.

Position	Total Remuneration, etc. (JPY millions)	Total Amount by Type of Remuneration, etc. (JPY million)				Number of Eligible Officers
		Regular Remuneration	Bonuses	Common Stock Option	Stock Option as Stock-based Compensation	
Directors (Excluding Outside Directors)	750	313	191	123	122	5
Outside Directors	51	51	—	—	—	3
Total	801	555		123	122	8
Audit & Supervisory Board Members (Excluding Audit & Supervisory Board Members (Outside))	63	63	—	—	—	2
Audit & Supervisory Board Members (Outside)	22	22	—	—	—	3
Total	85	85		—	—	5

(Notes) 1. The table above includes one Audit & Supervisory Board Member who retired during the fiscal year under review.

2. The amount of remuneration, etc. (regular remuneration and bonuses) paid to all Directors was no more than JPY750 million per year as per the resolution passed in the 96th Annual General Meeting of Shareholders for the year ended December 31, 2006 held in March 2007.

Apart from this, the maximum amounts of compensation paid to Directors in the form of stock acquisition rights allocated as stock option are JPY125 million per year for common stock option and JPY150 million per year for stock option as stock-based compensation as per the resolution passed at the 98th Annual General Meeting of Shareholders for the year ended December 31, 2008 held in March 2009.

3. The amount of remuneration for all Audit & Supervisory Board Members was no more than JPY100 million per year as per the resolution passed at the 95th Annual General Meeting of Shareholders for the year ended December 31, 2005 held in March 2006.
4. The amounts of bonuses shown in the table above are the amount of provision for reserve for bonuses to directors for the fiscal year under review.
5. The amounts and the number of eligible officers of common stock option and stock option as stock-based compensation shown in the table above are the amounts that were posted as expenses for the fiscal year under review and the number of corporate officers eligible for the issue of said stock options.
6. A resolution was passed at the 98th Annual General Meeting of Shareholders for the year ended December 31, 2008 held in March 2009, to abolish the retirement benefits system for Executive Directors, and to pay retirement benefits corresponding to their residual term up to the abolishment of the system to each concerned Director remaining in office after the closing of the 98th Annual General Meeting of Shareholders for the year ended December 31, 2008, at the respective time of their retirement.
7. In the fiscal year under review, the amount of remuneration, etc., received by Director Daniel O'Day while serving as Outside Director, as an officer from the parent company of the Company or subsidiaries of the said parent company totaled JPY258 million (converted into yen at the average exchange rate in the fiscal year under review). In line with the enforcement of the Japanese "Act for Partial Revision of the Companies Act" (Act No. 90 of 2014), Mr. Daniel O'Day became Director (Non-Executive Director) from Outside Director as of the closing of the 105th Annual General Meeting of Shareholders for the year ended December 31, 2015 held on March 24, 2016.

(5) Other Important Matters Concerning Company's Officers

There is no applicable information.

5 Accounting Auditor

(1) Name of Accounting Auditor

KPMG AZSA LLC

(2) Amount of Fees, etc. Paid to Accounting Auditor in the Fiscal Year under Review

a) Amount of Fees, etc. as Accounting Auditor in the Fiscal Year under Review: JPY119 million

b) Total Amount of Cash and Other Proprietary Benefits Payable by the Company and its Subsidiaries:

JPY133 million

- (Notes) 1. Based on the "Operational Guideline for Company Auditors Concerning the Assessment and Election Standard Formulation of Accounting Auditors" released by the Japan Audit & Supervisory Board Members Association, the Audit & Supervisory Board has verified and examined the contents of audit plans created by the Accounting Auditor, execution of duties of accounting audit, and calculation basis for fee estimates. As a result, the Audit & Supervisory Board agreed to the fees, etc. paid to the Accounting Auditor based on Article 399, Paragraph 1 of the Companies Act.
2. The amount of auditing fees is neither distinguished nor effectively distinguishable under the auditing agreement concluded between the Company and the Accounting Auditor with respect to audits under the Companies Act, audits under the Financial Instruments and Exchange Act and audits of financial statements reported by the Company as a consolidated subsidiary to the parent company. Therefore, the amount in a) represents the sum of the fees for such audits.
 3. Among the Company's principal subsidiaries, Chugai Pharma Europe Ltd. is subject to audits (limited to those under the provisions of the Companies Act or the Financial Instruments and Exchange Law (including equivalent foreign laws and ordinances)) of financial statements (including equivalent documents) of a Certified Public Accountant or an auditing corporation other than the Company's Accounting Auditor (including those with equivalent foreign qualifications).

(3) Policy for Determining Dismissal or Non-reappointment of Accounting Auditor

The Audit & Supervisory Board shall propose to the general meeting of shareholders, as the objective of such meeting, dismissing or not reappointing the Accounting Auditor, in cases where it is deemed difficult to have audits conducted properly if circumstances that undermine the Accounting Auditor's aptitude and independence have arisen.

Also, if any of the provisions of the subparagraphs of Article 340, Paragraph 1 of the Companies Act are deemed to apply to the Accounting Auditor, the Audit & Supervisory Board shall dismiss the Accounting Auditor with the unanimous consent of all the Audit & Supervisory Board Members.

6 Framework to Ensure Operational Adequacy

(1) Overview of Contents of Resolutions on Framework to Ensure Operational Adequacy

The Group is pursuing transparent, fair and highly ethical corporate activities aimed at realizing the mission “to dedicate itself to adding exceptional value through the creation of innovative medical products and services for the benefit of the medical community and human health around the world.” Moreover, in accordance with the provisions of the Companies Act, the Board of Directors has passed resolutions on basic policies concerning internal controls as follows, and we have built a robust framework to ensure the operational adequacy of the Group. Partial amendments have been made at the Board of Directors held on January 24, 2017 and the following is the framework after the amendments.

a) System for ensuring compliance of business operations executed by directors and employees with laws and articles of incorporation

- Directors and employees comply with “Chugai Business Conduct Guidelines (Chugai BCG).”
- The Company sets Corporate Social Responsibility Department, which is in charge of the Company’s compliance with laws and other relevant rules.
- Audit Department performs internal audits in accordance with “Internal Audit Charter” and reports the results to the Executive Committee and to the Audit & Supervisory Board.
- The Company shall establish and implement the internal control system for ensuring the reliability of financial reporting, and also conduct its assessment appropriately.

b) System for preserving and managing information relating to business operations performed by directors

- Documents and other information that relate to directors’ performance of its duties shall be properly preserved in accordance with “Document Management Rules” and other internal rules.
- The Audit & Supervisory Board and each individual Audit & Supervisory Board Member at its request shall be given a timely access to the documents in the above.

c) Regulations and systems regarding management of risks that may cause losses

- The Company makes efforts to reduce risks that may affect business of the Company. Also, the Company resolves troubles promptly and properly, when troubles come out. In doing these, directors and employees of the Company comply with “Risk Management Rules” and other internal rules.

d) System for ensuring efficient functioning of directors

- The Board of Directors supervises operation of each individual director in order for its effective operation.
- The Company keeps the number of directors within proper range, and retains outside directors, so that the Board of Directors can perform more effectively its function, including supervision of each individual director, and can make decisions more promptly. Also, the Company adopts the executive officer system where each officer has specific roles and responsibilities for the Company’s operation, in order for its effective operation.
- The Company shall regularly examine if the Board of Directors is effectively and efficiently performing its function, and based on the results, take appropriate measures. Directors and employees of the Company comply with “Regulations for Decision-Making” so that the Company can operate its business more promptly and effectively.

e) System for ensuring appropriate business operations of the corporate group comprised of the Company, its parent company and subsidiaries

- Each affiliated company sets each administration section in accordance with “Administration Rules for Affiliated Companies” in order to properly operate the Group, such as establishing the system to report matters on each affiliated company’s business operations, regulations and systems regarding the management of risks that may cause losses, a system for ensuring efficient business operations and ensuring compliance with laws and regulations and the articles of incorporation.
- Audit Department examines the affiliated companies in accordance with “Internal Audit Charter” and finds out whether the affiliated companies operate their business properly and effectively complying with laws and regulations, their articles of incorporation and other relevant rules.

f) System for elimination of antisocial forces

- The Company shall establish and maintain the corporate system that eliminates any connection with antisocial forces and groups in accordance with “Chugai Business Conduct Guidelines (Chugai BCG).”

g) System concerning employees who are requested by Audit & Supervisory Board Members to provide support

- The Company sets Office of Audit & Supervisory Board Members, which supports the Audit & Supervisory Board and each individual Audit & Supervisory Board Member.

h) Assurance of the Independence of Employees in the Previous Section from Directors and Effectiveness of the Instructions of Audit & Supervisory Board Members

- Office of Audit & Supervisory Board Members reports directly to the Audit & Supervisory Board and has full-time employees to ensure independence from directors and the effectiveness of instructions of Audit & Supervisory Board Members.
- The Company shall obtain a prior approval from the Audit & Supervisory Board for important matters relating to employees of Office of Audit & Supervisory Board Members, such as transfer, evaluation, disciplinary action and employment.

i) System available to the Company's directors, employees, and each subsidiary's directors, Audit & Supervisory Board Members and employees for reporting to Audit & Supervisory Board Members; and other systems for reporting to Audit & Supervisory Board Members

- Each director of the Company, and each director and Audit & Supervisory Board Member of each subsidiary reports regularly to the Audit & Supervisory Board in accordance with "Regulations of Audit & Supervisory Board" and "Audit & Supervisory Board Members' Auditing Standards" set by the Audit & Supervisory Board.
- Required measures shall be taken in order for the person who has made the report under this section not to be treated unfavorably due to said reporting.

j) System for ensuring effective auditing by Audit & Supervisory Board Members

- Representative directors hold meetings regularly with the Audit & Supervisory Board to exchange opinions and deepen mutual understandings with regard to issues relating to audit which are required to be improved by the Company, circumstances under which Audit & Supervisory Board Members perform audits, and other important issues relating to audits.
- Directors and employees of the Group cooperate with Audit & Supervisory Board Members, when Audit & Supervisory Board Members perform audits of the Group in accordance with "Audit & Supervisory Board Members' Auditing Standards" set by Audit & Supervisory Board Members.
- Costs or indemnification arising from business operations performed by the Audit & Supervisory Board Members are promptly processed upon the request of the Audit & Supervisory Board Members.

(2) Overview of Status of Operation of the Framework to Ensure Operational Adequacy

Status of major operations for the fiscal year under review is as follows.

[Corporate Governance]

- The Company has established the "Chugai Pharmaceutical Co., Ltd. Basic Corporate Governance Policy" and has ensured the appropriateness of its corporate governance in order to carry out its social responsibility to patients, consumers, and all other stakeholders, such as medical practitioners, business partners, the public, employees, and shareholders, and achieve sustainable growth and increased corporate value.
- As for the affiliated companies in and outside Japan, in accordance with the "Administration Rules for the Affiliated Companies," business operations were monitored regularly and a quarterly reporting meeting was held in order to appropriately manage them. Additionally, we periodically ascertain their risk management and compliance efforts.
- The internal audit was conducted by the Audit Department according to an annual audit plan approved by the Executive Committee and we have provided a relevant report to it and the Audit & Supervisory Board. This audit did not point out any material inadequacy on the part of the Company.

[Execution of business operations by directors]

- Documents pertaining to business operations performed by directors were appropriately managed in accordance with the "Document Management Rules" and related rules and guidelines.
- For the purpose of strengthening the function of the Board of Directors and expediting the decision-making process, the number of directors was adjusted to an appropriate number and external directors were added. In addition, an executive officer system was adopted.
- To supervise the effective operations of directors, conditions of business operations were quarterly reported by representative directors and other directors to the Board of Directors, in accordance with Article 363 of the Japanese Companies Act.
- The evaluation of the effectiveness of the Board of Directors was implemented, starting from May 2016, with the purpose of regularly examining if the Board is performing its function properly for improvement of the function. A self-evaluation questionnaire survey was implemented with all Directors and Audit & Supervisory Board Members as the subjects. The results were reported to the Board of Directors for further discussion. For your information, the results of the questionnaire confirm that the effectiveness of the Board of Directors is secured.

- The Board of Directors held 9 meetings and the Executive Committee held 35 meetings (including 4 extraordinary meetings).

[Compliance]

- The Corporate Social Responsibility Committee has been established under the Executive Committee for the promotion of Chugai Business Conduct Guidelines (Chugai BCG). The Committee held two meetings (June and December) to discuss the CSR activity policy and action plan and to report the results of CSR activities. Audit & Supervisory Board Members (Full-time) attended the meeting as observers to share information.
- In order to increase the penetration of corporate ethics and compliance in workplaces, reports were provided to BCG Promotion Assistants established in each workplace regarding the results of the CSR activities, the activity policy and action plan and other matters, and confirmation was made with those assistants regarding the significance and purpose of the promotion of autonomous compliance in each workplace to promote, through such assistants, the understanding and penetration of corporate ethics and compliance with the managers and members of those organizations.
- In order to understand the company-wide compliance conditions, a compliance monitoring survey was conducted in June and December, and the results were reported to the Corporate Social Responsibility Committee.
- The operating conditions of the “BCG Hotline” as a consultation and contact point were regularly reported to the Corporate Social Responsibility Committee and Audit & Supervisory Board Members (Full-time).
- As for the internal control assessment for financial reporting, we determined the scope of assessment targets and assessed the state of development and operation according to an annual plan approved by the Chief Financial Officer before reporting the assessment result to the Officer. This assessment did not cite any material inadequacy required to be disclosed.

[Risk management]

- Based on the “Regulations for Risk Management,” the Risk Management Committee has been set as a subsidiary organization of the Executive Committee.

- The Risk Management Committee held two regular meetings (July and December), in which the progress and conditions of response actions taken for main risk issues in each half-year term were confirmed and reported to the Executive Committee. In addition, efforts were made to prevent risks from occurring. The understanding of the progress of departmental risk issues for the current fiscal year was deepened, based on the hearings held with the risk management committee of each department. Audit & Supervisory Board Members (Full-time) attended the meeting as observers to share information.
- Chugai BCG explicitly specifies the commitment to eliminating connection with any antisocial forces or groups. Accordingly, the Company addressed the elimination of connection with antisocial forces and groups.

[Audit & Supervisory Board Members]

- The directors and the managers of main organizations, each director and Audit & Supervisory Board Member of each subsidiary reported business execution conditions to the Audit & Supervisory Board Members (Full-time) as deemed necessary.
- As members of the Executive Committee and also members of the informal executive meeting, Audit & Supervisory Board Members (Full-time) closely supervised their operations.
- Office of Audit & Supervisory Board Members, which was established as a supplementary organization to provide support to the Audit & Supervisory Board and Audit & Supervisory Board Members’ function, has been providing support to ensure smooth operation of auditing activities. The independence of employees working in the Office of Audit & Supervisory Board Members is guaranteed by the “Audit & Supervisory Board Members’ Auditing Standards” and “Regulations for Decision-Making.”
- Representative directors had meetings with the Audit & Supervisory Board regularly to exchange opinions about issues relating to audits that needed to be addressed by the Company, circumstances under which Audit & Supervisory Board Members performed audits and other important issues relating to audits, in an effort to deepen the mutual understanding. (Three times each with the Chairman, Deputy Chairman and President [February-March, May and September]).

(Notes) 1. The consolidated financial statements, starting from the fiscal year 2013, have been prepared in accordance with International Financial Reporting Standards (“IFRS”) pursuant to Article 120, Paragraph 1 of Ordinance of Company Accounting.
2. With regard to figures indicated in the Business Report, amounts less than the unit have been rounded off, whereas number of shares and shareholding percentages less than the unit have been rounded down.

Consolidated balance sheet (IFRS*) (As of December 31, 2016)

(Millions of yen)

Item	FY 2016	FY 2015 (Reference)
Assets		
Non-current assets:		
Property, plant and equipment	157,081	153,545
Intangible assets	19,299	13,511
Financial non-current assets	9,706	13,715
Deferred tax assets	27,474	26,025
Other non-current assets	13,965	12,832
Total non-current assets	227,525	219,628
Current assets:		
Inventories	185,440	161,135
Accounts receivable	167,482	158,668
Current income tax assets	1	49
Marketable securities	110,176	134,419
Cash and cash equivalents	95,368	101,707
Other current assets	20,293	11,796
Total current assets	578,760	567,773
Total assets	806,285	787,401
Liabilities		
Non-current liabilities:		
Long-term debt	(510)	(604)
Deferred tax liabilities	(9,146)	(10,028)
Defined benefit plan liabilities	(8,790)	(2,358)
Long-term provisions	(2,140)	(1,974)
Other non-current liabilities	(15,543)	(12,108)
Total non-current liabilities	(36,128)	(27,071)
Current liabilities:		
Short-term debt	(135)	(131)
Current income tax liabilities	(10,533)	(13,133)
Short-term provisions	(76)	(180)
Accounts payable	(72,346)	(78,353)
Other current liabilities	(40,570)	(41,260)
Total current liabilities	(123,660)	(133,058)
Total liabilities	(159,788)	(160,130)
Total net assets	646,497	627,271
Equity:		
Capital and reserves attributable to Chugai shareholders	645,508	625,857
Equity attributable to non-controlling interests	989	1,414
Total equity	646,497	627,271

* International Financial Reporting Standards

Consolidated income statement (IFRS) (January 1, 2016 to December 31, 2016) (Millions of yen)

Item	FY 2016	FY 2015 (Reference)
Revenues	491,780	498,839
Sales	472,673	468,427
Royalties and other operating income	19,108	30,413
Cost of sales	(247,944)	(240,238)
Gross profit	243,836	258,601
Marketing and distribution	(69,770)	(74,811)
Research and development	(85,011)	(83,799)
General and administration	(12,171)	(13,207)
Operating profit	76,884	86,784
Financing costs	(86)	(67)
Other financial income (expense)	1,111	559
Other expense	(3,460)	—
Profit before taxes	74,448	87,276
Income taxes	(20,076)	(24,923)
Net income	54,372	62,353
Attributable to:		
Chugai shareholders	53,592	61,125
Non-controlling interests	780	1,228

Non-Consolidated Financial Statements

Non-consolidated balance sheet (JGAAP) (As of December 31, 2016)

(Millions of yen)

Item	FY 2016	FY 2015 (Reference)
Assets		
Total current assets:	546,360	531,973
Cash and deposits	73,580	76,333
Accounts receivable-trade	147,724	146,409
Marketable securities	95,998	120,996
Merchandise and finished goods	75,745	68,058
Raw materials and supplies	49,822	36,072
Prepaid expenses	3,834	3,793
Deferred tax assets	21,397	24,195
Short-term loans receivable from subsidiaries and affiliates	3,900	42
Accounts receivable-other	59,413	48,326
Other	14,947	7,749
Total non-current assets:	143,508	138,016
Total property, plant and equipment:	47,379	44,205
Buildings (net)	25,406	25,734
Structures (net)	874	899
Machinery and equipment (net)	1,735	2,337
Vehicles (net)	6	7
Tool, furniture and fixtures (net)	5,150	5,582
Land	9,147	9,147
Leases assets (net)	2	5
Construction in progress	5,058	494
Total intangible assets:	3,179	1,811
Software	1,475	601
Other	1,704	1,210
Total investments and other assets:	92,950	92,001
Investment securities	8,725	12,839
Stocks of subsidiaries and affiliates	56,071	56,071
Investments in capital of subsidiaries and affiliates	3,352	1,075
Long-term loans receivable from employees	—	1
Long-term loans receivable from subsidiaries and affiliates	1,100	1,100
Long-term prepaid expenses	8,179	6,440
Deferred tax assets	10,327	8,579
Lease and guarantee deposits	3,963	3,996
Long-term accounts receivable-other	11	11
Other	1,363	2,031
Allowance for doubtful accounts	(142)	(142)
Total assets	689,868	669,989

Item	FY 2016	FY 2015 (Reference)
Liabilities		
Total current liabilities:	115,348	119,998
Accounts payable-trade	42,148	45,339
Lease obligations	2	4
Accounts payable-other	3,933	243
Accrued expenses	39,153	38,452
Income taxes payable	10,192	13,052
Accrued consumption taxes	1,984	3,179
Deposits received	1,820	1,657
Provision for bonuses to employees	4,683	5,612
Provision for bonuses to directors	191	238
Provision for sales rebates	2,205	2,129
Provision for environmental matters	—	77
Provision for decommissioning and removal	76	104
Accrued payables – facilities	2,528	3,094
Other	6,436	6,818
Total non-current liabilities:	3,764	2,940
Lease obligations	1	2
Provision for employees' retirement benefits	1,583	601
Provision for directors' retirement benefits	598	598
Provision for environmental matters	12	—
Provision for decommissioning and removal	—	204
Asset retirement obligations	1,345	1,327
Other	226	209
Total liabilities	119,111	122,938
Net assets		
Total shareholders' equity:	561,217	541,363
Capital stock	72,967	72,967
Total capital surplus	92,815	92,815
Legal capital surplus	92,815	92,815
Total retained earnings	426,849	407,515
Legal retained earnings	6,480	6,480
Other retained earnings	420,368	401,035
Reserve for advanced depreciation of non-current assets	725	724
General reserve	149,220	149,220
Retained earnings carried forward	270,423	251,091
Own equity instruments, at cost	(31,413)	(31,935)
Total valuation and translation adjustments:	7,702	4,158
Net unrealized gain on available-for-sale securities	4,128	5,787
Deferred gains or losses on hedges	3,574	(1,630)
Stock acquisition rights	1,837	1,530
Total net assets	570,756	547,051
Total liabilities and net assets	689,868	669,989

* Generally Accepted Accounting Principles in Japan

Non-consolidated income statement (JGAAP) (January 1, 2016 to December 31, 2016) (Millions of yen)

Item	FY 2016	FY 2015 (Reference)
Revenues	486,903	489,760
Cost of sales	244,836	240,390
Gross profit	242,066	249,370
Total selling, general and administrative expenses	173,018	176,520
Operating income	69,048	72,850
Non-operating income:	5,801	7,770
Interest and dividend income	850	3,316
Other	4,952	4,454
Non-operating expenses:	1,561	962
Interest expenses	8	7
Other	1,552	955
Ordinary income	73,289	79,658
Extraordinary gain:	1,053	39
Gain on sales of non-current assets	0	37
Gain on sales of investment securities	1,053	2
Extraordinary loss:	3,482	254
Impairment loss	5	11
Loss on revaluation of investment securities	6	64
Provisions for environmental matters	12	178
Adjustment from transfer pricing taxation	3,460	—
Income before income taxes	70,860	79,443
Income taxes – current	20,459	23,311
Income taxes – deferred	(506)	(76)
Net income	50,907	56,207

Copy of the Accounting Auditors' Report on Consolidated Financial Statements (TRANSLATION)

Independent Auditors' Report

To the Board of Directors
Chugai Pharmaceutical Co., Ltd.

January 24, 2017

KPMG AZSA LLC
Masahiro Mekada (seal)
Designated and Engagement Partner
with Limited Liability
Certified Public Accountant

Hiroshi Shiina (seal)
Designated and Engagement Partner
with Limited Liability
Certified Public Accountant

Shigeo Kobayashi (seal)
Designated and Engagement Partner
with Limited Liability
Certified Public Accountant

Pursuant to Article 444, Paragraph 4, of the Companies Act, we have audited the consolidated financial statements, that is, the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity, and notes to the consolidated financial statements of Chugai Pharmaceutical Co., Ltd. (the "Company"), for the fiscal year from January 1, 2016 to December 31, 2016.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of consolidated financial statements in accordance with the provisions of the latter part of Article 120, Paragraph 1 of the Company Calculation Rules which allows companies to prepare consolidated financial statements with the omission of a part of the disclosures required under the International Financial Reporting Standards, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements from an independent standpoint based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit is not to express an opinion on the effectiveness of the entity's internal control, but in making risk assessments that the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the above consolidated financial statements, prepared with the omission of a part of the disclosures required under the International Financial Reporting Standards in accordance with the provisions of the latter half of Article 120, Paragraph 1 of the Company Calculation Rules, fairly present in every material aspect, the financial position and results of operations of the consolidated group consisting of the Company and its consolidated subsidiaries for the relevant term of the consolidated financial statements.

Conflicts of Interest

Our firm and engagement partners have no interests in the Company requiring disclosure under the provisions of the Certified Public Accountants Law.

Copy of the Accounting Auditors’ Report

(TRANSLATION)

Independent Auditors’ Report

To the Board of Directors
Chugai Pharmaceutical Co., Ltd.

January 24, 2017

KPMG AZSA LLC
Masahiro Mekada (seal)
Designated and Engagement Partner
with Limited Liability
Certified Public Accountant

Hiroshi Shiina (seal)
Designated and Engagement Partner
with Limited Liability
Certified Public Accountant

Shigeo Kobayashi (seal)
Designated and Engagement Partner
with Limited Liability
Certified Public Accountant

Pursuant to Article 436, Paragraph 2, Item 1 of the Companies Act, we have audited the non-consolidated financial statements, that is, the non-consolidated balance sheets, non-consolidated statements of income, non-consolidated statement of changes in net assets, and notes to the non-consolidated financial statements of Chugai Pharmaceutical Co., Ltd. (the “Company”), the fiscal year from January 1, 2016 to December 31, 2016, together with the supplementary schedules of the Company for the same year.

Management’s Responsibility for the Non-consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these non-consolidated financial statements and supplementary schedules in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the non-consolidated financial statements and supplementary schedules that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility
Our responsibility is to express an opinion on these non-consolidated financial statements and supplementary schedules from an independent standpoint based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements and supplementary schedules are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements and supplementary schedules. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements and supplementary schedules, whether due to fraud or error. The purpose of an audit is not to express an opinion on the effectiveness of the entity’s internal control, but in making risk assessments that the auditor considers internal controls relevant to the entity’s preparation and fair presentation of the non-consolidated financial statements and supplementary schedules in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements and supplementary schedules.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the above non-consolidated financial statements and supplementary schedules fairly present, in every material aspect, the financial position and results of operations of the Company for the relevant term of the non-consolidated financial statements, in accordance with the business accounting standards generally accepted in Japan.
Conflicts of Interest
Our firm and engagement partners have no interests in the Company requiring disclosure under the provisions of the Certified Public Accountants Law.

Copy of the Audit Report by the Audit & Supervisory Board

(TRANSLATION)

Audit Report

We, the Audit & Supervisory Board, hereby present this Audit Report compiled after deliberating the respective audit reports prepared by the Audit & Supervisory Board Members regarding the execution of duties by Directors for the fiscal year from January 1, 2016 to December 31, 2016:

1. Method and Description of Audits conducted by Audit & Supervisory Board Members and the Audit & Supervisory Board
- (1) The Audit & Supervisory Board determined the auditing policies, auditing plans, etc. for the fiscal year under review and received reports on the execution status and results of audits from each Audit & Supervisory Board Member, in addition to receiving reports from Directors, etc. and the Accounting Auditor regarding the execution status of their duties and demanding an explanation from them if necessary.
- (2) Pursuant to the Standards for Audits conducted by Audit & Supervisory Board Members established by the Audit & Supervisory Board, and in accordance with the auditing policies, auditing plans, etc. for the fiscal year under review, each Audit & Supervisory Board Member sought to communicate with Directors, the Audit Department and other employees, etc., endeavored to gather information and make improvements to the auditing environment and conducted audits in the following ways.
- 1) Each Audit & Supervisory Board Member attended meetings of the Board of Directors and other important meetings; received reports from Directors and employees, etc. regarding the execution status of their duties, and if necessary, demanded an explanation from them; reviewed documents regarding the approval of material matters, etc.; and investigated the status of the business operations and assets of the head office and major offices. In regards to subsidiaries, each Audit & Supervisory Board Member sought to communicate and exchange information with Directors and Audit & Supervisory Board Members of the subsidiaries, and if necessary, received reports on business operations from the subsidiaries.
- 2) Each Audit & Supervisory Board Member also received reports from Directors and employees, etc. on a regular basis, requested explanation on a necessary basis and represented his opinion on: (a) the nature of the Board of Directors' resolutions set forth in the business report to develop (i) a system to ensure that the Directors' duties are executed in compliance with laws, regulations and the Articles of Incorporation of the Company, and (ii) other systems required for ensuring the appropriateness of business operations of a corporate group, comprising its subsidiaries and other companies, as provided in Article 100, Paragraphs 1 and 3 of the Ordinance for Enforcement of the Companies Act; and (b) the status of construction and operation of systems (internal control systems) developed based on such resolutions.
- 3) Based on the status of deliberations by the Board of Directors and others, each Audit & Supervisory Board Member reviewed the contents of matters that were noted as stipulated in Article 118, Item 5 (a) of the Ordinance for Enforcement of the Companies Act, which are described in the business report, as well as judgment and reasons, which are set forth in (b) of the same item.
- 4) The Audit & Supervisory Board monitored and verified as to whether the Accounting Auditor conducted audits in an appropriate manner while maintaining an independent positioning, received reports from the Accounting Auditor on the execution status of its duties, and if necessary, demanded an explanation from the Accounting Auditor. We also received a notice from the Accounting Auditor that systems for ensuring the appropriate execution of duties by the accounting auditor set forth in each item of Article 131 of the Corporate Calculation Regulations have been developed in accordance with the Standards on Quality Control for Audits (Business Accounting Council), etc., and if necessary, demanded an explanation from the Accounting Auditor.

Based on the aforementioned methods, we reviewed the business report, its supplementary schedules and non-consolidated financial statements (non-consolidated balance sheets, non-consolidated statements of income, non-consolidated statement of changes in net assets and notes to the non-consolidated financial statements) together with the supplementary schedules for the same year as well as the consolidated financial statements (consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and notes to the consolidated financial statements) for the fiscal year under review.

2. Audit Results

- (1) Results of Audit of Business Report, etc.
- 1) The business report and its supplementary schedules present fairly the Company's current position in compliance with laws, regulations and the Articles of Incorporation of the Company.
- 2) With respect to the execution of duties by Directors, there were no instances of misconduct or material matters in violation of the laws, regulations, or the Articles of Incorporation of the Company.
- 3) The resolutions of the Board of Directors regarding internal control systems are fair and reasonable in content. There are no matters to be pointed out in relation to the contents and Business Report and the execution of duties by Directors regarding the internal control systems.
- 4) In regards to transactions with the parent company, etc., stated in the business report, there are no matters to be pointed out in relation to the matters that were noted in order to prevent the said transactions from harming the interests of the Company and the judgment of the Board of Directors on said issue as well as the reason for said judgment.
- (2) Results of Audit of Non-consolidated Financial Statements and Supplementary Schedules
- The methods and results of audits conducted by the Accounting Auditor, KPMG AZSA LLC, are fair and reasonable.
- (3) Results of Audit of Consolidated Financial Statements
- The methods and results of audits conducted by the Accounting Auditor, KPMG AZSA LLC, are fair and reasonable.

January 31, 2017

Audit & Supervisory Board of Chugai Pharmaceutical Co., Ltd.
Audit & Supervisory Board Member (Full-time)
Kunitoshi Watanabe
Audit & Supervisory Board Member (Full-time)
Shunji Yokoyama
Audit & Supervisory Board Member
Hisashi Hara
Audit & Supervisory Board Member
Takaaki Nimura

(Note) Audit & Supervisory Board Members Hisashi Hara and Takaaki Nimura are Audit & Supervisory Board Members (Outside) stipulated in Article 2, Item 16 and Article 335, Paragraph 3, of the Companies Act.

memo

This image shows a full page of white paper with horizontal blue dashed lines. The lines are evenly spaced and run across the width of the page, providing a guide for handwriting practice. There are no margins, text, or other markings on the page.

Chugai will help to establish public trust in the Company as well as contribute to the sustainable development of society by working to create innovative drugs that address unmet medical needs.

■ Our View of CSR ■

To realize its mission, Chugai has established a Mission Statement that includes seven Core Values to be shared individually and across the Company in order to ensure sound business activities as we work toward our Envisioned Future. The Core Values also form the basis of the Chugai Business Conduct Guidelines (Chugai BCG), a code of behavior for management decision-making and for employees. The Chugai BCG are reflected in the activities of each business unit and serve as a foundation to support the execution of our mid-term business plan, IBI 18. We believe that corporate activities consistent with our Mission Statement and the Chugai BCG are the essence of our CSR.

TOPICS ①

Sponsoring of the “First Chair Ski Class to be Enjoyed by Parents and Children”

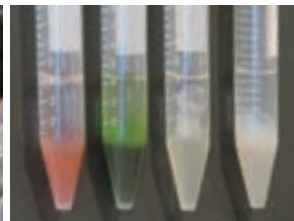
During February 13 to 14, 2016, Chugai sponsored the “First Chair Ski Class to be Enjoyed by Parents and Children” organized by the Japan Chair Ski Association which was held at the Kandatsu Kogen Ski Resorts located in Echigo Yuzawa, Niigata Prefecture. Employees served as volunteers, supporting children to get on the chair ski, start going down the slope after getting on, and helping them while they are skiing. Each child was given a certificate of completion at the completion ceremony in our hope that they would continue to enjoy chair ski.



TOPICS ②

Participation in “Nihonbashi Kids Town - Exciting Work Experience -”

During May 14 to 15, 2016, Chugai sponsored “Nihonbashi Kids Town - Exciting Work Experience -,” an event organized by the Nihonbashi Kids Town Executive Committee in the Nihonbashi area which allows about 500 elementary school children to gain work experience. Chugai set up the “Chugai Kids Bio Lab” booth, and together with the NPO “Life & Bio plaza 21,” conducted DNA extraction experiments using chicken meat, strawberry, komatsuna (Japanese mustard spinach), banana and other fruits and vegetables. All the participants who attended were able to succeed in DNA extraction.



TOPICS ③

Proactive social contribution activities for the development of local communities and medical and pharmaceutical sciences

As an expression of its appreciation for the constant support and assistance given to Chugai Pharmaceutical, Chugai donated wagon-type service cars in fiscal year 2016 as well, as welfare vehicles providing transportation for home welfare services, as social contribution activities aimed at further development of local communities and medical and pharmaceutical sciences.

In addition, Chugai continued providing grants to the Tokyo Biochemical Research Foundation, aimed at the further enhancement of the Foundation's research grant projects covering studies carried out in Japan and the Asian region in the medical and pharmaceutical areas.

Donation of welfare vehicles providing transportation as part of home welfare services

Chugai has continued this donation since it was started as a part of its 60th anniversary commemorative project in 1985, giving out vehicles that are used as a means of transport by elderly persons and physically disabled individuals who receive long-term nursing care at home. This year marks the 32nd year of this donation, and the total number of vehicles donated, including the five vehicles donated this time, reached 243. This project is carried out with the cooperation of the Japan National Council of Social Welfare and the Central Community Chest of Japan, and donation recipients consist of all prefectures.



[Sample image]

Donation to the Tokyo Biomedical Research Foundation

To support basic and applied researches on drug therapy and new drugs as well as to encourage original pharmaceutical research, the Tokyo Biochemical Research Foundation engages in awarding grants for studies that are judged to contribute to fulfilling these goals. The targets of subsidies have been expanded to include not only domestic researchers but also young researchers in the Asian region who are invited to Japanese universities and academic research institutes, etc., to engage in joint research. This year, Chugai has made donations to further enhance the Foundation's research grant projects covering the studies carried out in Japan and the Asian region in the medical and pharmaceutical areas. Chugai hopes that this donation will lead to accelerating the creation of innovative drugs from Japan.



Promotion of Diversity & Inclusion that Allow a Rich Variety of Human Resources to Play Active Roles

In order for the diversity of human resources to become a value of the organization and to generate innovation, we will promote Diversity & Inclusion and realize our vision of a top pharmaceutical company.

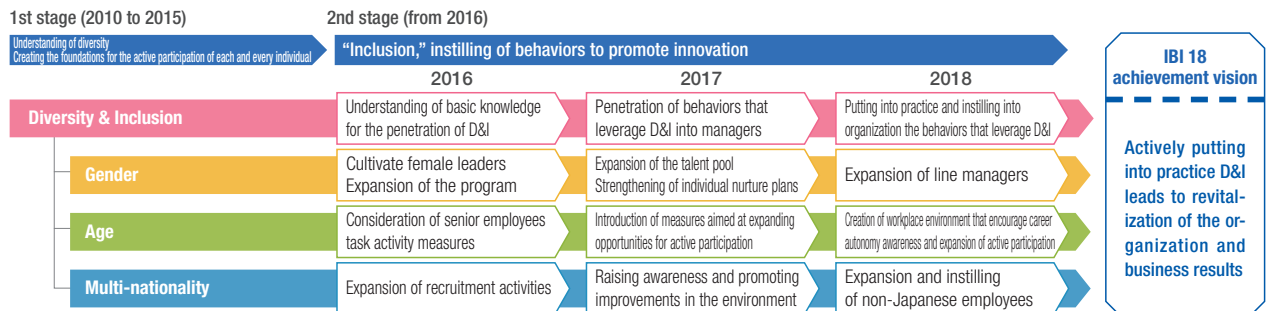
Chugai has given priority to the promotion of Diversity & Inclusion to enable a rich variety of human resources to work enthusiastically and create new values. We began addressing this issue with the launch of a management working team in 2010 to promote gender diversity. Since establishing the Diversity Office in 2012, we have been carrying out initiatives on themes surrounding gender, nationality, and age. In addition to these three themes that have been addressed up until now, under IBI 18, we will also put inclusion into practice with a focus on the diversity of each and every individual and aim to enliven the organization and contribute to business results with diversity.

To promote active participation of women in the workplace, we have improved the working environment to support employees in balancing work with childcare and nursing care, and promoted career awareness initiatives by holding a Women's Forum and providing opportunities to exchange opinions with a female Director as measures to nurture female leaders. In addition, we have introduced training to nurture female leaders (Female Leaders' Program) from 2014. In the 2014 "Commendation of Companies Promoting Gender Equality and Work-Family Balance," sponsored by the Ministry of Health, Labour and Welfare, Chugai was awarded both the Minister's Prize for Excellence (Companies promoting gender equality) and the Tokyo Labor Bureau Chief's Prize for Excellence (Family-friendly companies). We have set the percentage of female employees in management positions of 13% as an index, and will continue our ini-

tatives to promote the success of women toward 2018.

We are also promoting the active participation of senior employees, through awareness-raising initiatives such as career training, system development, and the provision of opportunities to exhibit their roles toward continued employment up to the age of 65. As for promoting diversity in nationality, we are accelerating the recruitment of non-Japanese employees, which has resulted in an increase in the number of them in Japan. In addition, we are striving to create an environment in which non-Japanese employees can work together with other employees, through measures including distribution of information in bilingual formats and holding of gatherings.

Given the growing opportunities to work globally, working hours and locations have become more flexible. In addition to employees who are involved in childcare and nursing care, telecommuting is also used by those who frequently engage in teleconferencing with their overseas counterparts. From 2015, it became possible to use telecommuting for those who have difficulty commuting due to injuries or medical treatment, and for use with the aim of improving productivity. At the Chugai Diversity Promotion Forum, which has been held annually since 2013, top management and members in charge of promoting diversity in each division gather to discuss and share their progress of Diversity & Inclusion initiatives. We will further promote Diversity & Inclusion going forward so that our diverse group of employees can demonstrate their maximum potential and create innovation.



TOPICS

Selected as a “Nadeshiko Brand” for the Second Consecutive Year

Chugai was selected for two consecutive years in 2015 and 2016 by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange as a Nadeshiko Brand, a designation offered to companies with an exceptional record of promoting active participation of women in the workplace. Since fiscal year 2012, Nadeshiko Brand companies have been chosen by industry category, from among the firms listed on the First Section of the Tokyo Stock Exchange that are proactive in promoting the active participation of women in the workplace, including those which have an environment in place that supports career paths for women. In the selection process, companies are rated and scored for “conducting career support for women” and “supporting women in balancing work and family.” From among those companies ranked high in each industry category, those that have also met the stipulated financial criteria (ROE) are eligible for selection.

We have introduced a talent management system to assess our employees based on objective criteria, and to carry out assignment and development with the aim of discovering and optimizing the talents of our diverse group of employees in the workplace. As for supporting women in balancing work and family, we have striven to promote proper work hours. Even though the quality and quantity of business operations may continue to increase, we promote work-life synergy* and endeavor to reduce overtime work by enhancing productivity.

* In 2013, the labor and management of Chugai summarized its approach to achieving work/life balance under the concept of pursuing “work-life synergy,” and we have been working to promote the understanding and dissemination of this concept among all of our employees.



Related performance data

(Non-consolidated basis, as of December 31 of each year)

Chugai has given priority to the promotion of Diversity & Inclusion to enable a rich variety of human resources to work enthusiastically and create new values, and conducts various activities related to diversity.

	2014	2015	2016
Percentage of female employees	25.4%	26.2%	26.5%
Average age	Male: 43 years and 7 months old Female: 37 years and 9 months old	Male: 43 years and 10 months old Female: 38 years and 2 months old	Male: 43 years and 9 months old Female: 38 years and 2 months old
Average years of service	Male: 18 years and 1 month Female: 12 years and 4 months	Male: 18 years and 3 months Female: 12 years and 5 months	Male: 18 years and 0 month Female: 12 years and 3 months
Percentage of female managers	9.7%	10.7%	10.7%
Number of female officers	1	1	1
Childcare leave utilization rate	Male: 4.1% Female: 94.2%	Male: 16.9% Female: 92.4%	Male: 28.8% Female: 103.5%
Employees who used flextime system with shortened core time	Male: 34 Female: 19	Male: 60 Female: 31	Male: 43 Female: 34
Number of employees registered to work under telecommuting system	Male: 102 Female: 151	Male: 187 Female: 225	Male: 245 Female: 316

Communication

with Shareholders and Investors

Chugai values dialogue with shareholders and investors, and fulfills its accountability to shareholders and investors through dialogue based on the policy, “In order to contribute to sustainable growth and the increase of corporate value over the mid- to long-term, Chugai will promote dialogue with shareholders and investors with a constructive purpose through the engagement of its directors and executives in various IR activities and SR activities.” We incorporate their voices in management, and work to improve corporate value of the Company.

General meeting of shareholders

Unlike many Japanese companies, which have fiscal years ending in March, Chugai's fiscal year ends in December. Therefore, we hold our general meeting of shareholders in March instead of June when such meetings are concentrated. Convocation notices for the general meeting of shareholders are normally sent out more than four weeks prior to the meeting date.

On-demand video distribution of general meeting of shareholders

On-demand videos are distributed on the Company's website for shareholders who are not able to participate in the general meeting of shareholders.

A video of this year's general meeting of shareholders is scheduled to be uploaded in early April. We hope that it would be found useful by shareholders. (only available in Japanese)



<https://www.chugai-pharm.co.jp/english/ir/index.html>

IR activities

Coinciding with financial results announcements, Chugai holds information meetings and conference calls for investors, analysts and the media. These meetings provide opportunities to explain the state of the Company's business directly to shareholders and investors. In August and September 2016, the President held for the second time since last year discussions with institutional investors and securities analysts. In addition, a briefing session by the CEO was held in December to elaborate on the challenges facing Japan's pharmaceutical industry and its future prospects, in addition to the Company's business strategy. We will continue to expand these face-to-face investor relations activities featuring senior management to properly convey Chugai's corporate value to the market.

In June 2016, we conducted a factory tour for individual shareholders, a new initiative started in 2013 to increase shareholder communication. The tour of the Utsunomiya Plant, where our flagship product Actemra is produced, gave shareholders a first-hand view of the manufacturing process for the biopharmaceuticals that are one of Chugai's strengths.

Senior management also holds overseas roadshows and in 2016 visited institutional investors in Europe, the United States and Asia. Moreover, in addition to participating in domestic and overseas conferences hosted by securities companies, Chugai is enhancing its outreach to individual investors by holding briefing session for

them at branches of securities companies throughout Japan.

The Chugai website is another tool to provide timely and fair disclosure to shareholders and other investors. Information on our website includes news releases, financial results, the status of our development pipeline, presentation materials, annual reports and an IR event

calendar. We work to provide comprehensive information to our stakeholders. We focus on convenience for individual shareholders and investors by offering the option of receiving e-mail notices whenever news releases and other updates are posted on the IR section of our website, and other initiatives include posting webcasts of IR events on the website.

Shareholder survey

A report of the results of the shareholder survey that was included with the interim shareholder newsletter ("Kabunushi-tsushin") for fiscal year 2016 will be included in the shareholder newsletter for fiscal year 2016 that will be delivered in late March.

We will utilize valuable opinions from shareholders as we strive to further enhance our IR and SR activities.



Contents for individual shareholders and investors Story for a Better Understanding of Chugai Pharmaceutical

"Story for a Better Understanding of Chugai Pharmaceutical" that introduces Chugai Pharmaceutical in a manner that is easy to understand in three steps is available on the Company's website for individual shareholders and investors.

Please visit the site.
(only available in Japanese)



<https://www.chugai-pharm.co.jp/english/ir/index.html>

Factory tour for shareholders

The fifth factory tour for shareholders is scheduled to be held at the Utsunomiya Plant of Chugai Pharma Manufacturing Co., Ltd. Information on this tour will be provided in the shareholder newsletter for fiscal year 2016 that will be delivered in late March. We look forward to everyone's application.

*Participation will be based on a drawing.

