



Roche Roche Group

Chugai's approach in a drastically changing business environment

CHUGAI PHARMACEUTICAL CO., LTD.
Chairman of the Board,
President and CEO
Osamu Nagayama

2007.9.13

Today's Agenda



1. Expectations for Pharmaceuticals
2. Chugai/Roche Strategic Alliance
3. Goal of Chugai

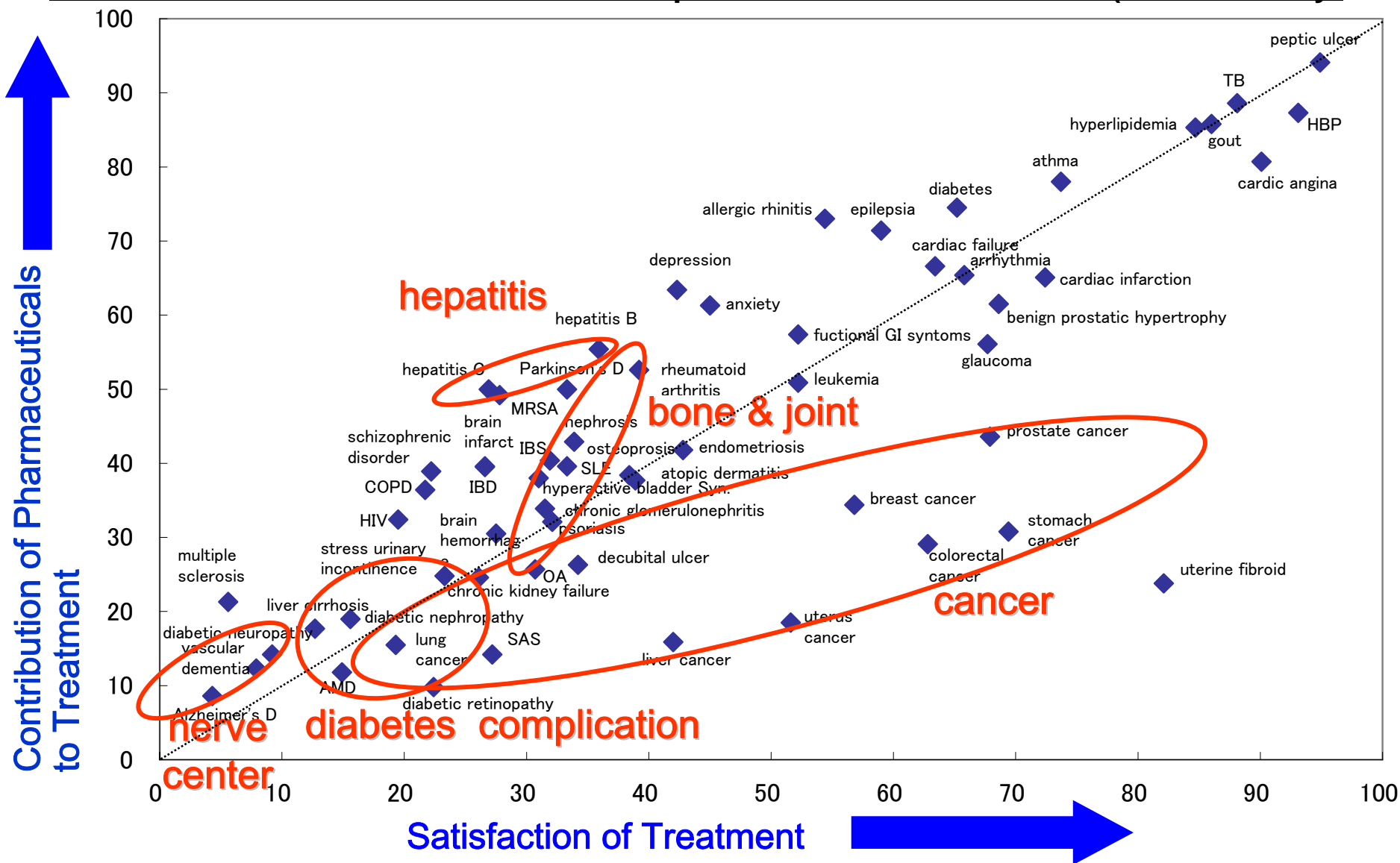
Environment changes around pharma industry



- ① Increasing medical costs and worsening financial state of health insurance system due to aging society and low birth-rate
⇒ **Strengthening of cost containment of drugs and stagnation of pharmaceutical market**
- ② “Lull” in discovery faced by new drug R&D
⇒ **Rapid progress of life sciences**
⇒ **Increasing R&D costs**
⇒ **Decreasing efficiency of development**
- ③ Borderless market for pharmaceuticals
⇒ **Birth of global mega-pharmas**
⇒ **Increasing competition among companies**

Unmet medical needs (2005)

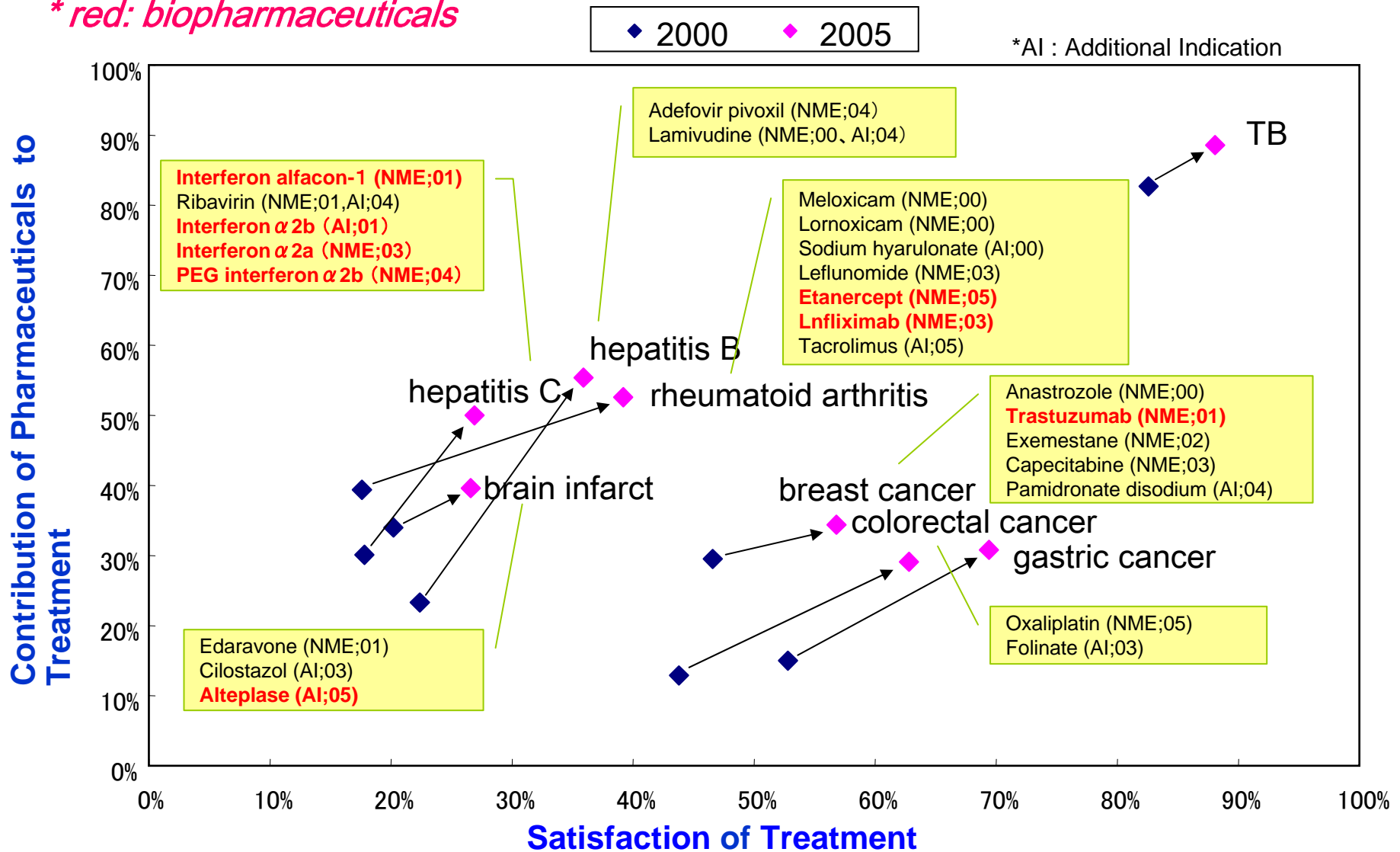
Correlation of treatment satisfaction and pharmaceutical contribution (doctor survey)



Diseases and new drugs with significantly increased treatment satisfaction / contribution from pharmaceuticals



* red: biopharmaceuticals



In surveys of treatment satisfaction included in the 2000 and 2005 "Report on Key Domestic Technologies" by the Japan Health Sciences Foundation, the rate of treatment satisfaction and the rate of contribution by drugs both increased 5 points between 2000 and 2005 for pharmaceutical products with new active ingredients and efficacy drugs with therapeutic effect in eight disease areas. (Source: OPIR)

Biopharmaceuticals among the world's top 100 products



2000

	Product	Company	World Sales (Mill\$)
4	Epogen/Procrit/Espo	Amgen/J&J/Kirin	4,669
27	Intron A/Revetron	Schering Plough	1,360
35	Neupogen	Amgen	1,220
40	Humulin	Lilly	1,115
63	Avonex	Biogen IDEC	761
73	Enbrel	AHP	690
97	Rituxan/Mabthera	Biogen IDEC/Roche	559
98	Betaferon	Schering	559

2006

	Product	Company	World Sales (Mill\$)
4	Epogen/Procrit/Espo	Amgen/J&J/Kirin	6,027
7	Rituxan/Mabthera	BiogenIDEC/Roche/Chugai	4,781
8	Enbrel	Amgen/Wyeth/Takeda	4,475
9	Remicade	J&J(Centocor)/S-P/Tanabe	4,425
14	Aranesp	Amgen	4,121
22	Herceptin	Genentech/Roche/Chugai	3,222
30	Neulasta	Amgen	2,710
36	Avastin	Genentech/Roche	2,430
43	Lantus	Sanofi-Aventis	2,200
45	Humira	Abbott	2,044
56	Novorapid/Levemir	Novo Nordisk	1,916
58	Epogin/Neorecormon	Chugai/Roche	1,827
61	Erbitux	Imclone/BMS/Merck KGaA	1,785
62	Avonex	Biogen IDEC	1,707
73	Rebif	Serono	1,452
81	Neupogen/Gran	Amgen/Kirin	1,345
83	Betaferon	Bayer-Schering	1,308
85	Humalog	Lilly	1,300
92	Pegasys	Roche/Chugai	1,204
94	Synagis	Medimmune/Abbott	1,165

Number / Sales / % of Biopharmaceuticals (top 100 products)

2000

8 products

\$10,933 million
(8.4%)

2006

20 products

\$51,444 million
(20.7%)

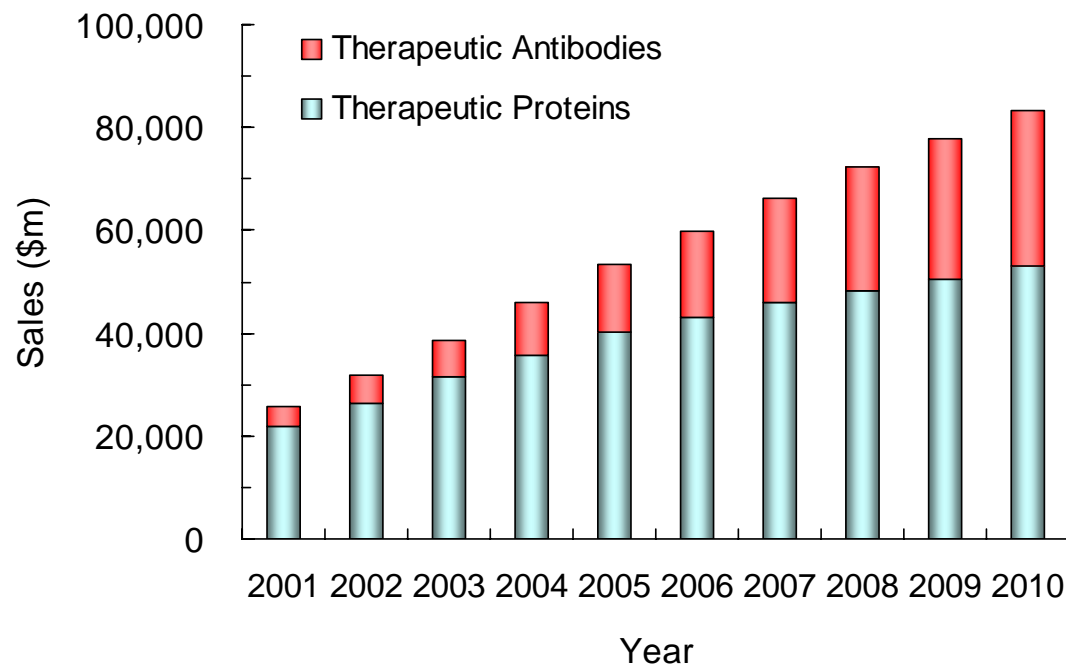
* Japanese market: 9 products

Source: Pharma Future

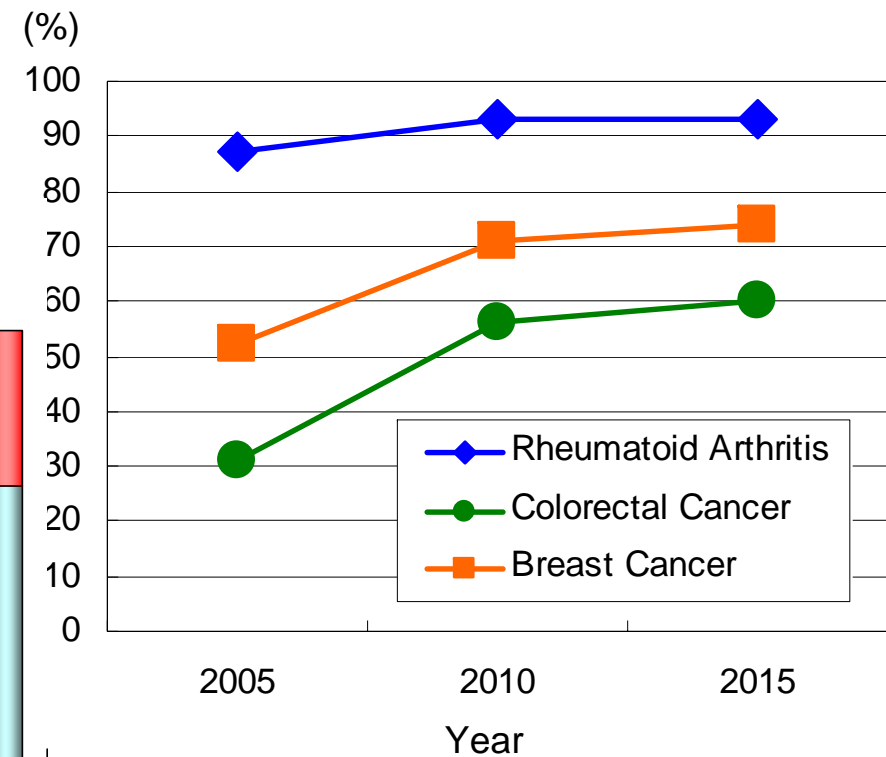
Expanding share of biopharmaceuticals



CAGR	2001-06	2005-10
Total Market	10.5%	4%
Proteins	14.6%	11%
Antibodies	33.8%	20%



Share of biopharmaceuticals



Source: DATAMONITOR

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Chugai/Roche Strategic Alliance



December, 2001: Signing of Basic Agreement

October, 2002: Completion of merger with Nippon Roche and full-fledged start of the Alliance



Chugai-Roche “Unique” Alliance



- Roche acquired 50.1% of Chugai’s shares
- Chugai and Nippon Roche merged
- Chugai maintained autonomous management

By the Alliance

Win

For Chugai

- Secures **foundation for drug discovery technology** related to bio-pharmaceuticals
- Acquires more **chances to produce innovative products** through R&D synergies
- Strengthens **total resources**, including product/pipeline portfolios
- Gains an **option to the global market** through Roche’s infrastructure

Win

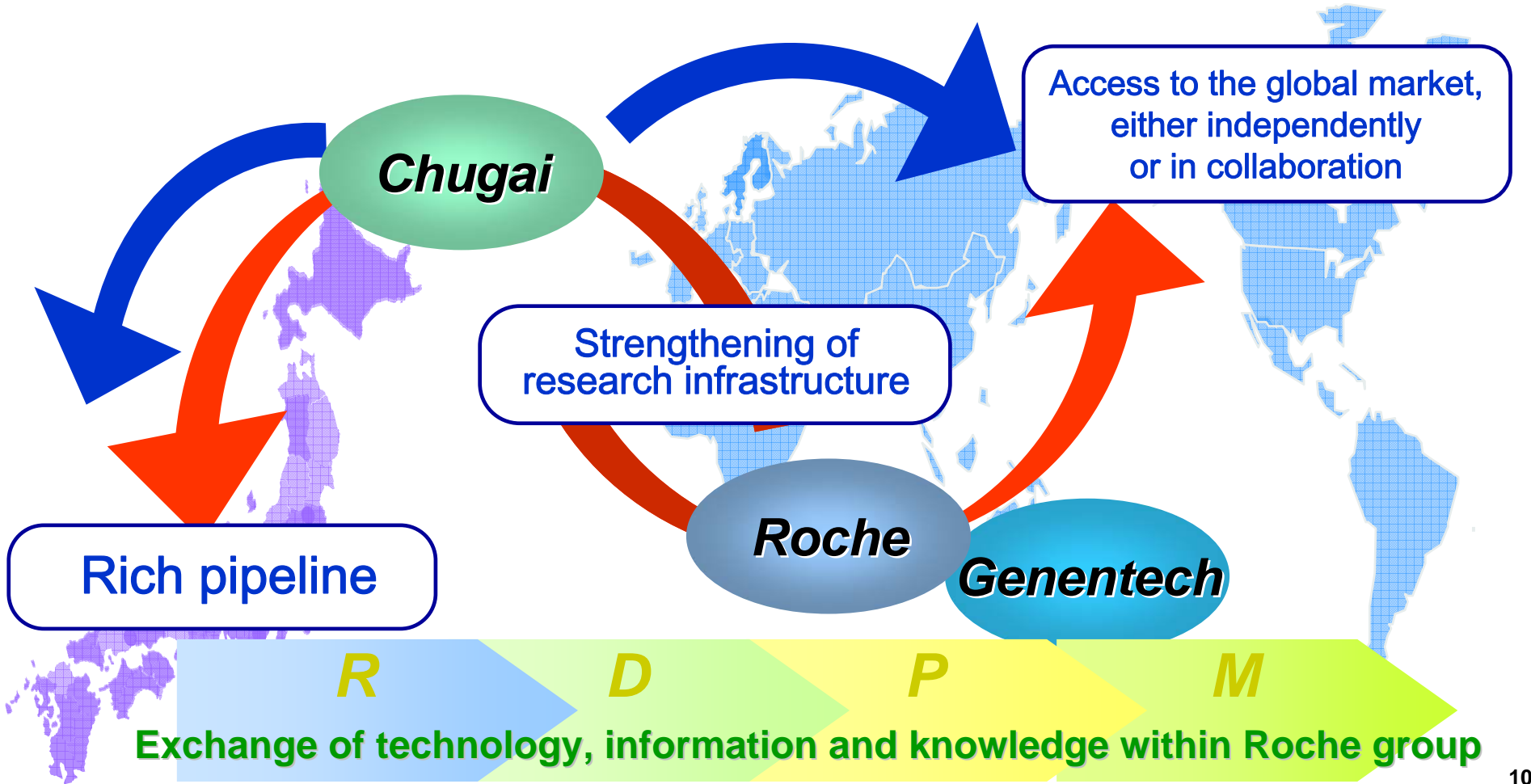
For Roche

- Acquires **local management** that understands the Japanese business environment
- Strengthens its **presence in Japan - the world’s second largest market**
- Increases **opportunities to acquire Japan-originated innovative drugs**
- Establishes a **“Global Management Network” infrastructure** (Hub & Spokes)

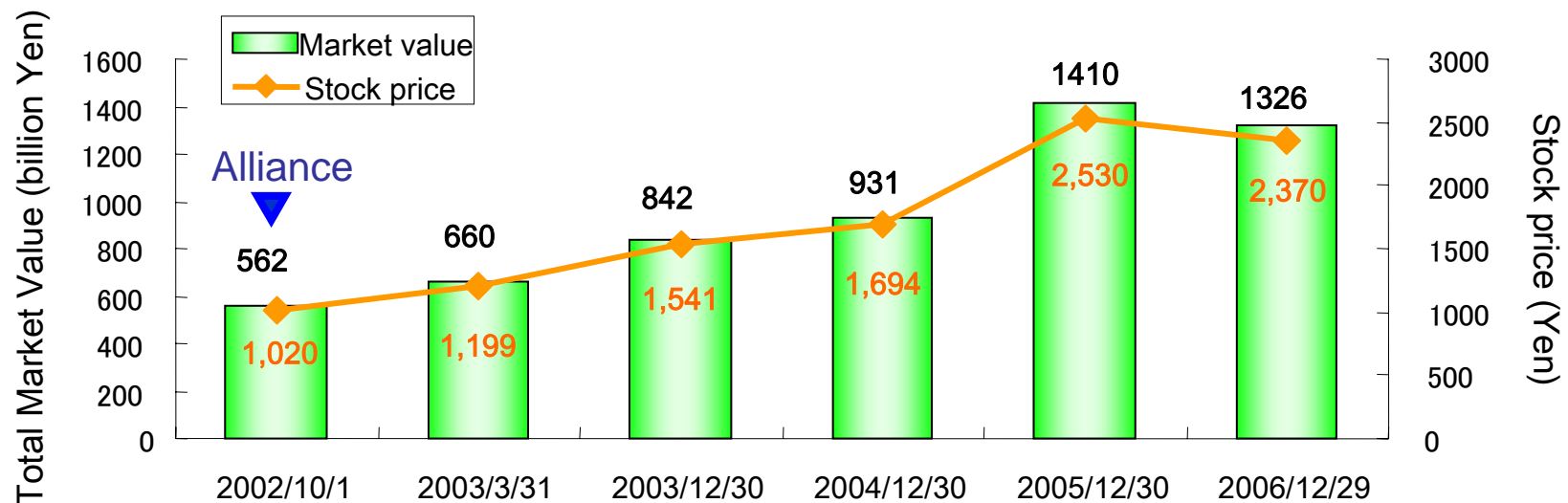
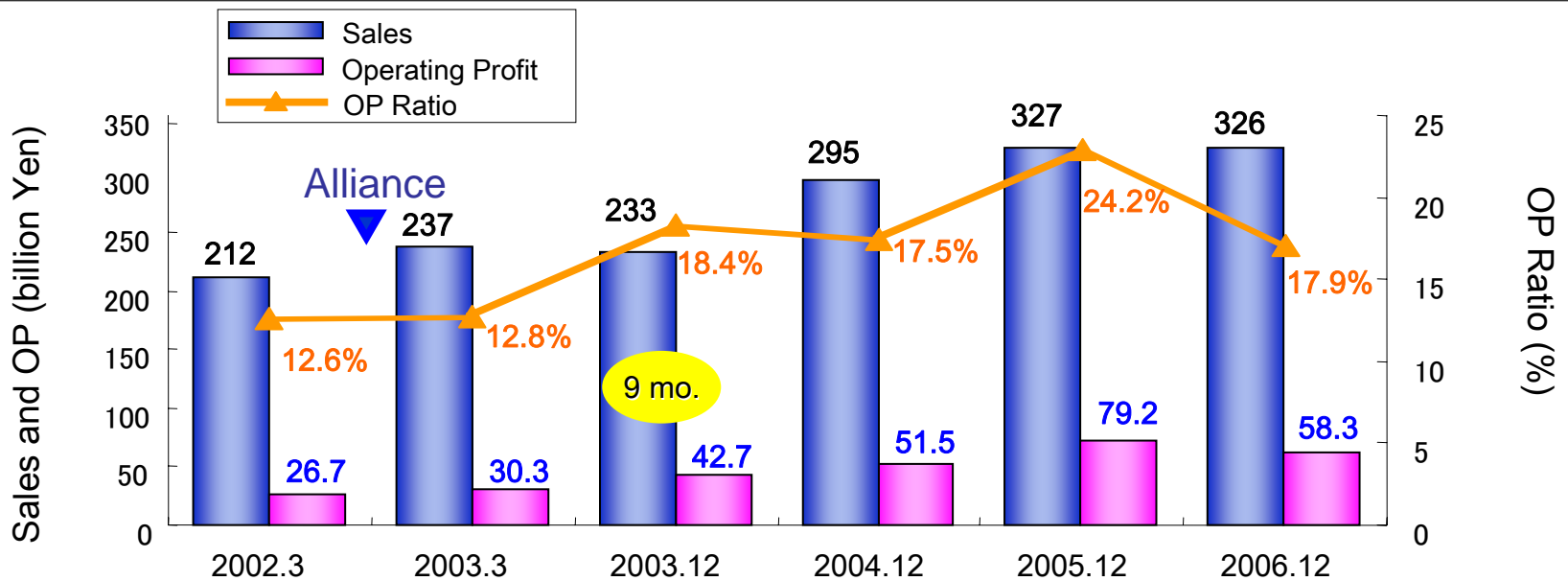
Establishment of global competitiveness through the Alliance



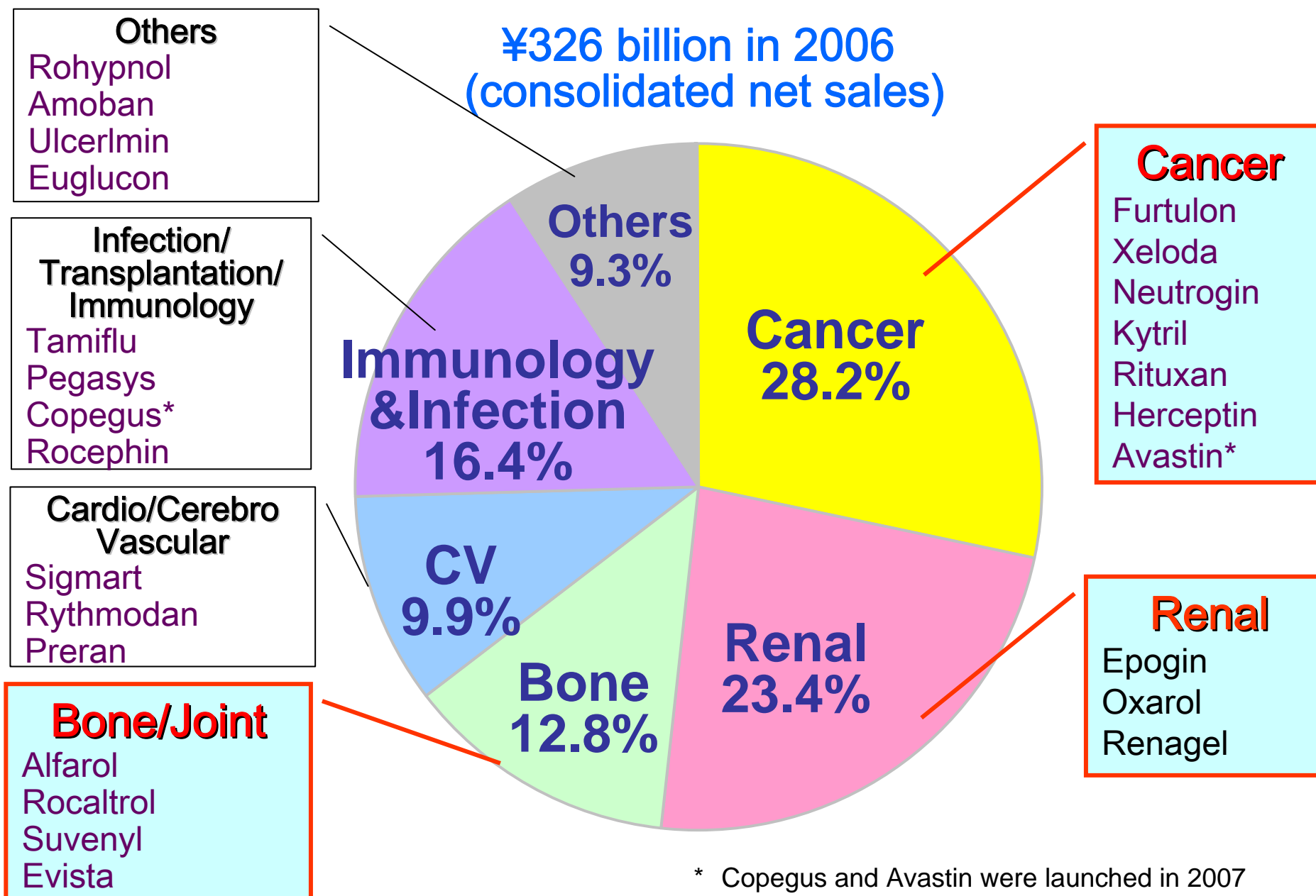
- ✓ Securing **diversity** & **creativity** through autonomous management
- ✓ Enhancing **efficiency** & **productivity** through mutual collaboration
- ✓ Competitiveness as the **top bio-pharmaceutical group**
- ✓ Continuous drug creation by leveraging **bio-technology**
- ✓ Satisfying unmet medical needs, with a focus on **cancer**



Chugai's performance since the Alliance



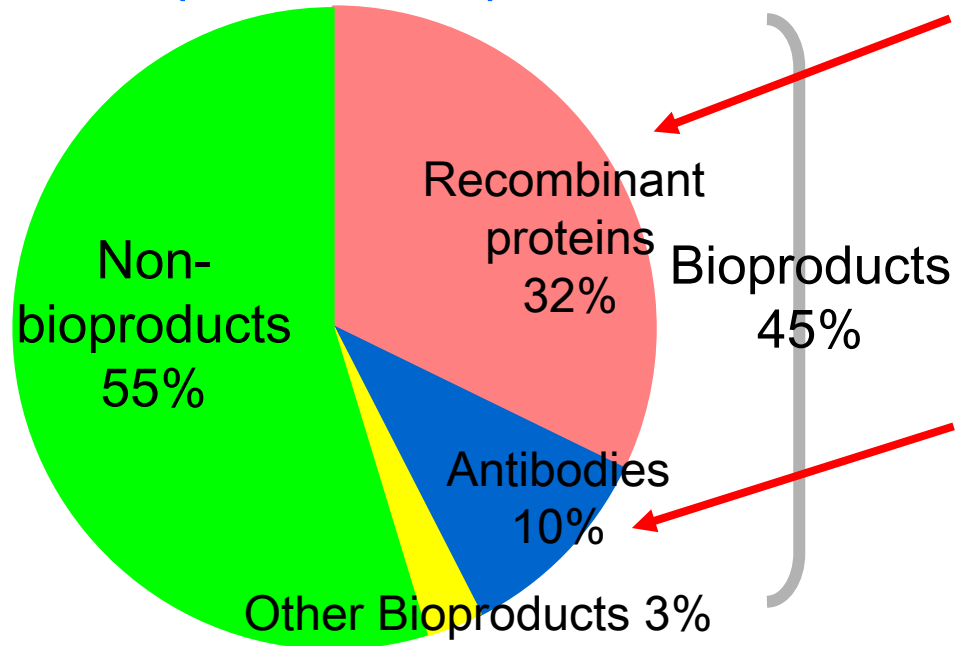
Areas of focus and products



* Copegus and Avastin were launched in 2007

Share of Biopharmaceuticals within Chugai

December, 2006
(consolidated)



- **Epogin** (epoetin beta) Renal anemia
- **Neutrogin/Granocyte** (lenograstim), Neutropenia
- **Pegasys** (pegylated interferon alfa 2a), Hepatitis C

- **Herceptin** (trastuzumab, anti-HER-2 Mab) Breast cancer

- **Rituxan** (rituximab, anti-CD20 Mab) Non-hodgkin lymphoma

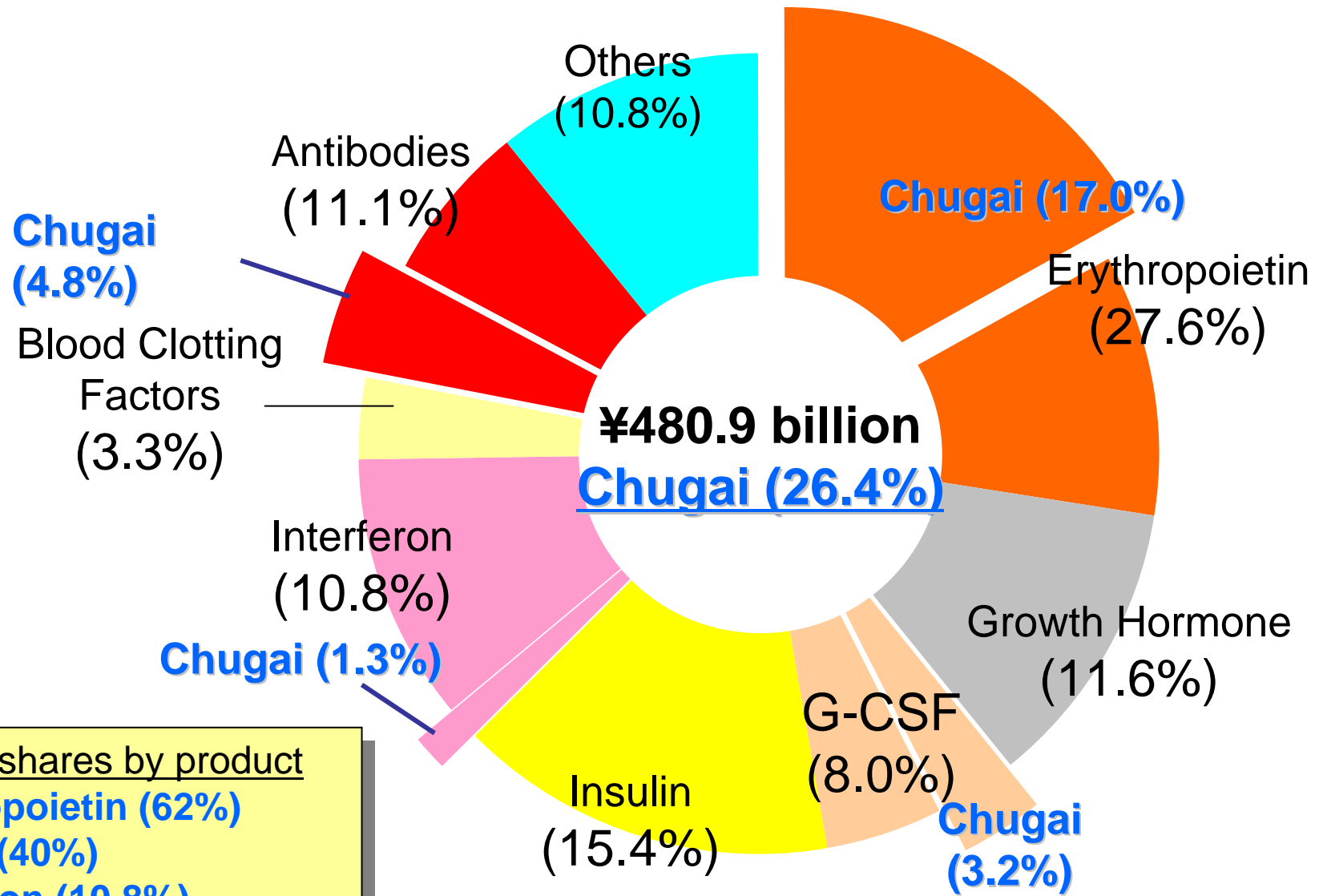
- **Actemra** (tocilizumab, anti-IL-6R Mab) Castleman's disease

- ***Avastin** (bevacizumab, anti-VEGF Mab) Colorectal cancer
- * Avastin was launched in 2007

Biopharmaceuticals in Development

- **Epogin** (epoetin beta) Chemotherapy-induced anemia (filed)
- **Avastin** (bevacizumab) Adjuvant colorectal cancer (P3), Lung cancer (P2), Breast cancer (P2)
- **Herceptin** (trastuzumab) Adjuvant breast cancer (filed), Gastric cancer (P2)
- **Actemra** (tocilizumab) Rheumatoid arthritis (filed), Multiple myeloma (P2), Crohn's disease (P1), etc.
- **R744** (cont. erythropoietin receptor activator) Renal anemia (P3), Chemotherapy-induced anemia (P2)
- **Pegasys** (peginterferon alfa-2a agent) Liver cirrhosis (P2/3), Hepatitis B (P2/3)
- **R1273** (pertuzumab) Non-small cell lung cancer (P1)

Japan's biopharmaceutical market in 2006



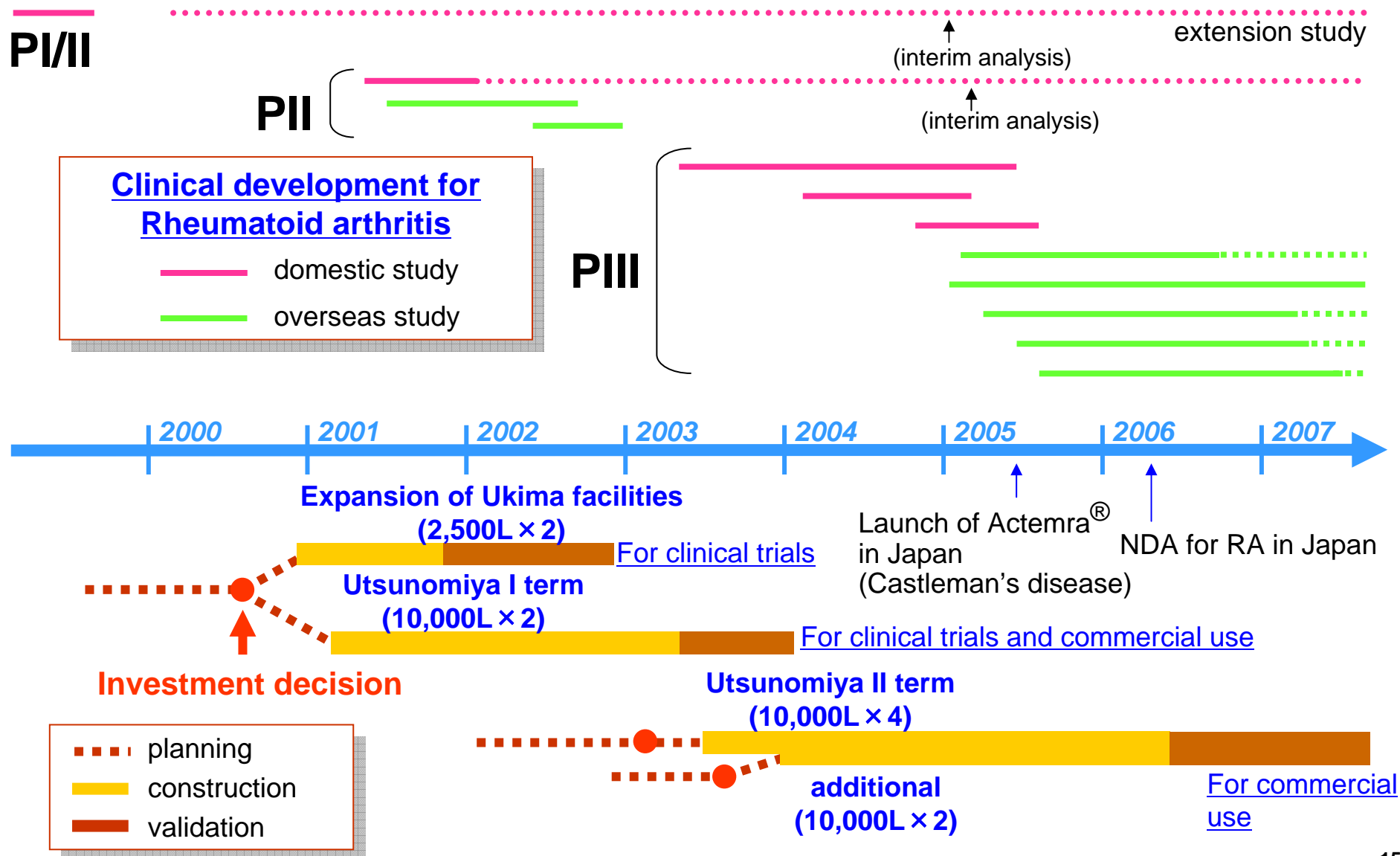
Chugai shares by product

- Erythropoietin (62%)**
- G-CSF (40%)**
- Interferon (10.8%)**
- Antibodies (43%)**

Data: Nikkei Biotech (Dec. 2006)

(Antibodies include TNFR fusion protein) 14

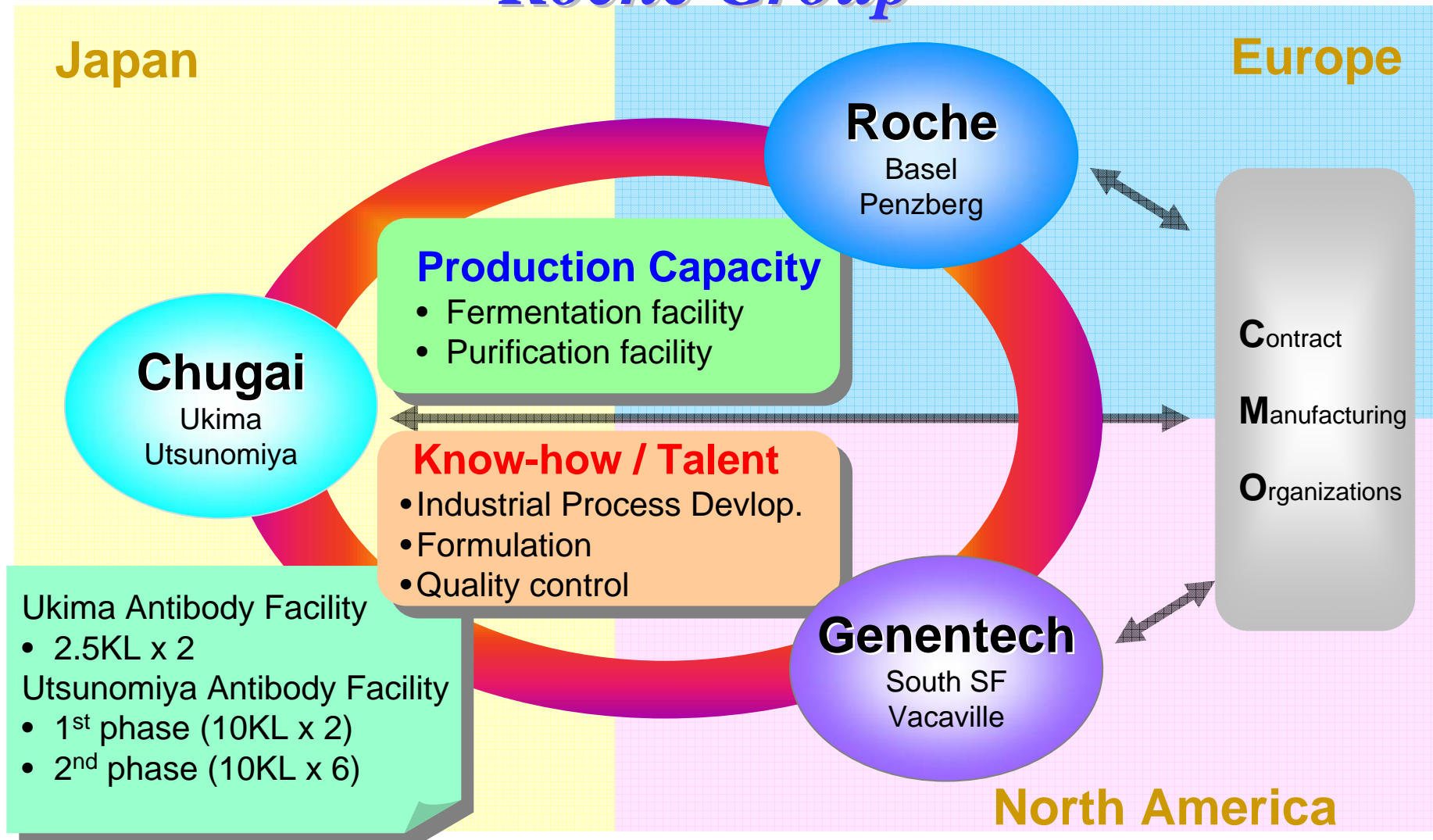
Development of Actemra and Investments in Production Facilities



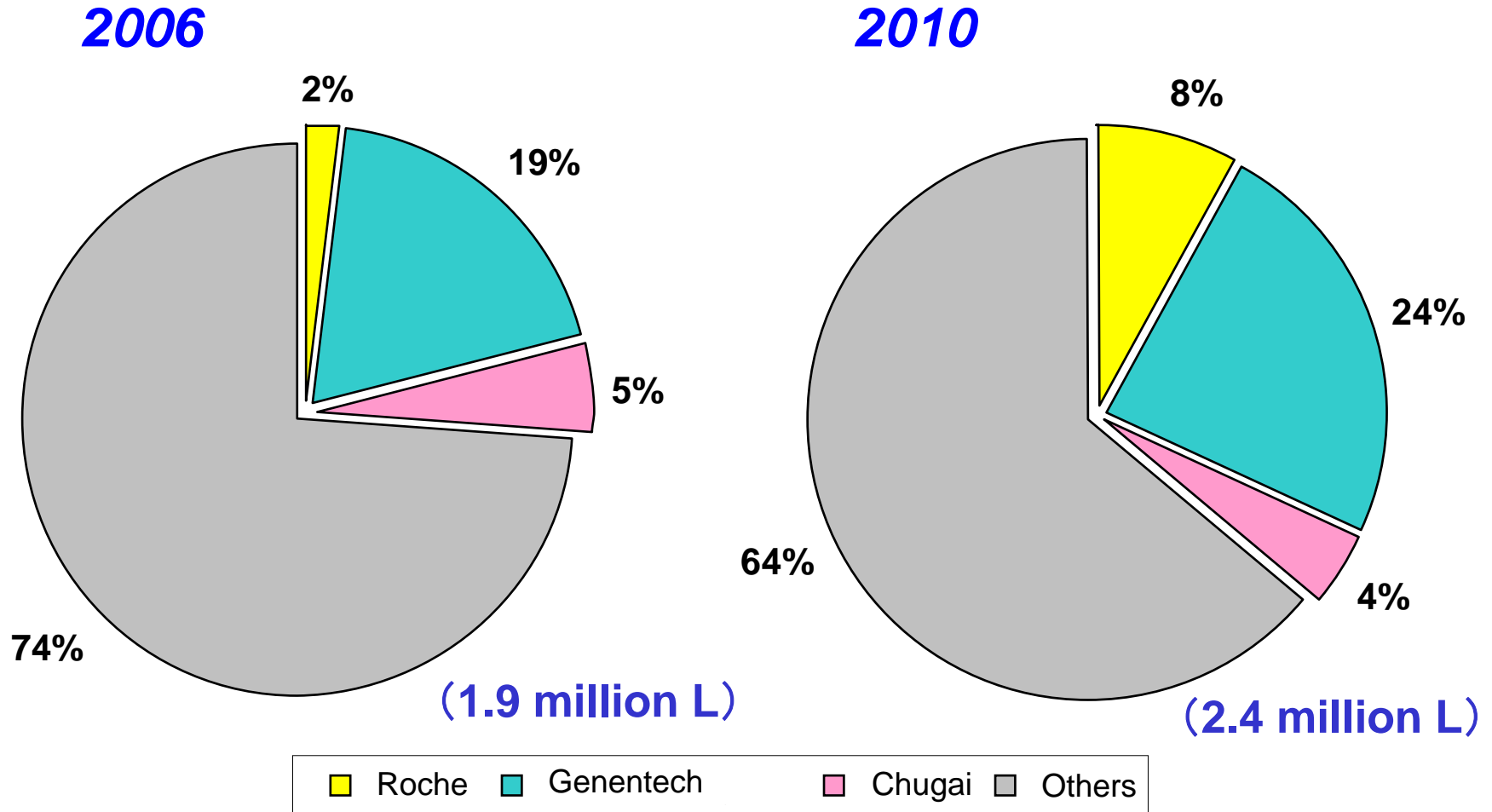
No.1 Bio-production based on tri-polar network



Roche Group



Mammalian cell culture capacity



Data: JP Morgan estimates

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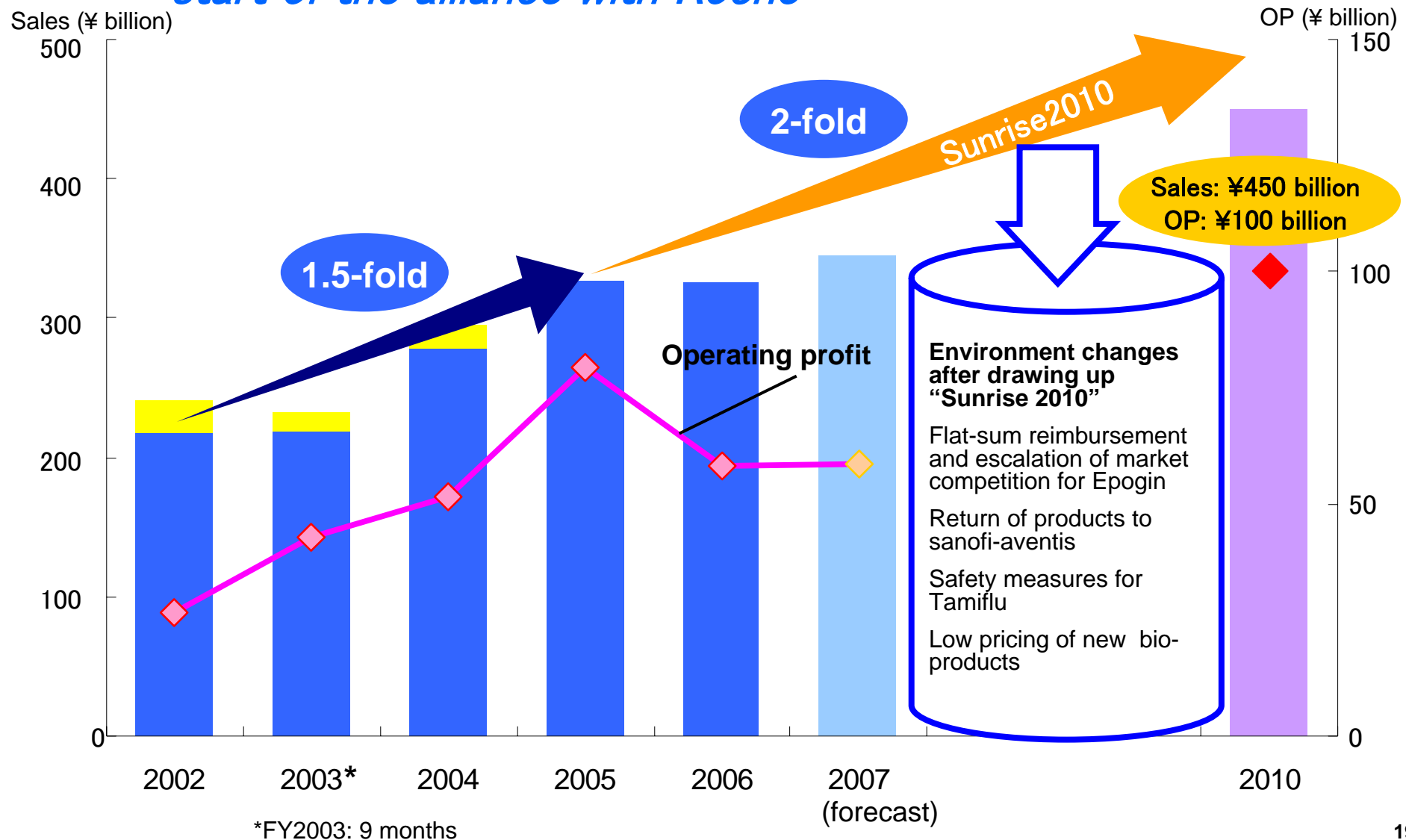


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Goal of the mid-term plan "Sunrise 2010"



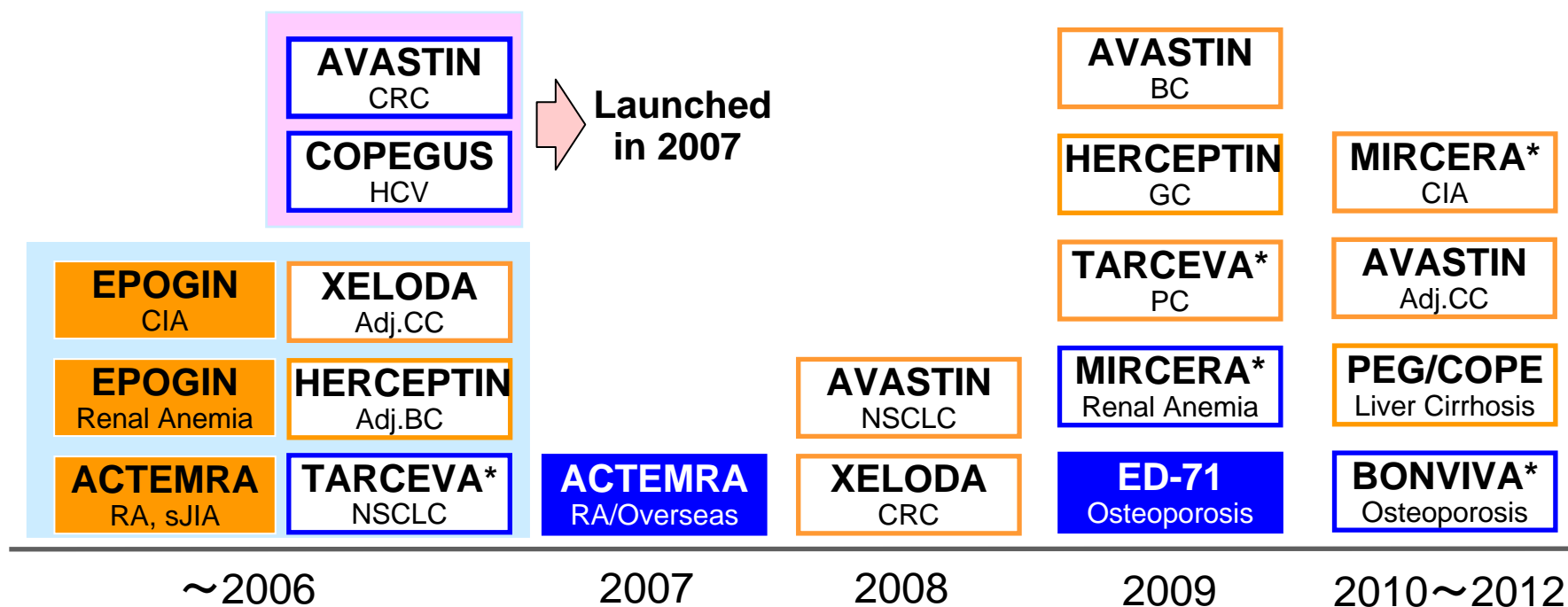
Double revenue (Rx) and triple operating profit since start of the alliance with Roche



Major submissions for approval



- ◆ File for approval of NMEs and additional indications every year
- ◆ Secure safety and proper market introduction of new drugs



* overseas product name

New Molecular Entity
 Additional Indication etc.
 In-licensed from Roche

Business environment and Chugai's countermeasures



Negative

Positive

Severe containment of drug costs

- ✓ Reduction of costs in dialysis
 - flat-sum reimbursement of ESA drugs
 - low pricing of new ESA drugs
- ✓ Low pricing of new bio-products

Restructuring of global manufacturers

Expectations for innovative drugs

- ✓ Government measures to resolve drug-lag
- ✓ Discussion of new drug pricing system reflecting drug values

Progress of life science and biotechnology

Increasing interest in drug safety

Management for transformation and growth
(organization, system, processes, human resources)

Offer new drugs based on needs of patients and medical care
(focus on cancer and bio pharmaceuticals)

Maximized utilization of synergies of the Roche group
(resources and knowledge)

Improvement of both “Hard” and “Soft” Sides

**Transformation
of hard side
(organization,
system)**

- ◆ Establishment of “Strategic Marketing” function
- ◆ Establishment of Oncology Unit
- ◆ Specialized MRs in cancer and renal + General MRs
- ◆ Strengthening of safety information management system
- ◆ Spin-off of production function and restructuring of production sites

**Transformation
of soft side
(processes, human
resources)**

- ◆ Implementation of business process reengineering
 - ⇒ Improvement of productivity and change of mind-set
- ◆ Secure, foster and improve human resources

**Achievement
of 2010 goal**

□ Evidence based Marketing

- ✓ Analysis and action based on market data of products
- ✓ Supply of treatment (drug) information based on evidence

□ Medical marketing

- ✓ Cooperation and support of clinical research by study groups
- ✓ Lifecycle management (consistent fostering of products from development stage to post-approval)
- ✓ Establishment of drug efficacy, safety and economic efficiency by pharmaco-epidemiology/economics

□ Stakeholder marketing

- ✓ Support access to the world's standard treatments (e.g. Karolinska report)
- ✓ Supply of information and activity support to patient groups
- ✓ Support to medical professionals and staff (support increased use of standard guidelines and treatment by specialized teams)

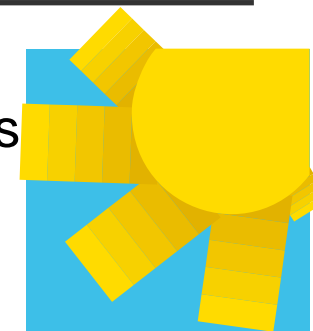
Measures toward transformation and growth



Aim for No.1 position in the Japanese cancer field

□ Contribution to treatment and patient health by innovative drugs

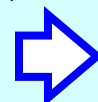
- ✓ Herceptin , Xeloda , Avastin , TARCEVA* , etc..
- ✓ Simultaneous development by participation in global studies
- ✓ Active license-in of products from Roche/Genentech



Strengthening of strategic marketing

□ Comprehensive contribution to cancer treatments

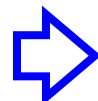
- ✓ Response to changes in medical environment (Basic Law of Countermeasures Against Cancer, improvement of key cancer institutions, fostering of cancer specialists, standardization of treatments, shortening of time-lag of approval from overseas)
- ✓ Supply of information to patients and medical professionals, promotion of standard treatments based on evidence
- ✓ Promotion of proper usage of drugs, timely supply of safety information



Establishment of Oncology Unit

□ Proactive approach to cutting-edge technologies

- ✓ Investment in technologies related to genome and antibody
- ✓ Establishment of Chugai's research network
- ✓ Response to increasing demand for antibody drugs
- ✓ Synergy with Roche in research



PLR, FPR, Bio-production facility

(PLR: PharmaLogicals Research, FRP: Forerunner Pharma Research) (*overseas product name) 24

Chugai's approach based on 3 points of views



~Focus on cancer and biotech~

New treatments

Focusing on disease areas where satisfaction of medical treatment is low (refractory diseases such as cancer and rheumatoid arthritis)

➔ **Development of new drugs for unmet medical needs**

Innovative technologies

New possibilities in drug discovery by genomic research etc.

Development of biopharmaceuticals

➔ **Proactive approach to new technologies**

Chugai

Improving quality of medical care

Standardization of medical treatments

Promotion of EBM

Strengthening of drug safety measures

➔ **• High-quality MR performance and strengthening of PMS system**

• Comprehensive educational activities about diseases

Strengthening of medicinal chemistry functions and approaches



2002.10: Merger of chemical functions at Gotemba (Chugai) and Kamakura (Nippon Roche)

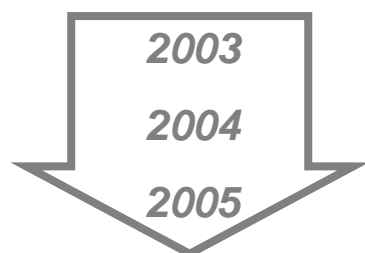
⇒ Significant expansion of medicinal chemical functions

2002.9: Contract with Roche on cooperative research in low molecular drugs

⇒ Mutual access to chemical libraries (one of the world's largest with over a million compounds)

⇒ Mutual utilization of research information such as chemical database

⇒ Utilization of Roche's research tools



- Restructuring and consolidation of research organization and functions
- Strengthening of research portfolio management
- Selection and concentration of research projects
- Cooperation with pharmaceutical technology function

2006.9: Start of TP300 (cancer drug) clinical study

2007.1 : License-out of research projects to Roche

⇒ 2 projects in cancer area

⇒ 1 project in diabetes

Chugai's Challenges



- ◆ The environment around the pharmaceutical industry and Chugai is changing drastically and becoming more severe.
- ◆ There are great expectations for biotech and other cutting-edge technologies to address unmet medical needs.
- ◆ The strategic alliance between Chugai and Roche started in 2002, aiming to respond to those needs and continuously supply new medicines.
- ◆ Roche group aims to be the top group in the areas of “cancer” and “biopharmaceuticals” by realizing mutual synergies of group companies.
- ◆ The group possesses bio-production facilities and know-how — the high hurdles of biopharmaceuticals — in a tripolar network encompassing Japan, US and Europe.
- ◆ Chugai has been implementing the “transformation” of organizations, systems, processes and human resources to achieve its mid-term plan.
- ◆ Leveraged by “cancer” and “bio/antibody technologies”, Chugai aims to create new value by offering new treatments, utilizing the latest science and technology, and improving the quality of medical care.

Contacts: Corporate Communications

Investor Relations Group

Tel: +81 (0)3-3273-0554 Fax: +81 (0)3-3281-6607

e-mail: ir@chugai-pharm.co.jp

Mac Uchida, Kae Maeda, Tomoko Shimizu, Yusuke Tokita