

Message from the CEO (Discussion)

Chugai appointed a new CEO on March 22, 2018. In this section, Representative Director & Chairman Osamu Nagayama, who served as CEO until that date, and Representative Director & President Tatsuhiro Kosaka, the newly appointed CEO, share their thoughts with stakeholders.

We constantly transform ourselves to deliver innovative pharmaceuticals.

Nagayama Continuously bringing innovative drugs to patients suffering from disease is Chugai's purpose. Chugai was founded in 1925 in response to the severe shortage of medicine after the Great Kanto Earthquake, and the Company's commitment to contributing to healthcare with exceptional medicines has not changed since then. To live up to the Company's founding spirit, we constantly transform ourselves to adapt to the needs of the times and society. I believe this is the reason we have continued to grow.

Kosaka Chugai's business model has certainly changed a great deal during its history of more than 90 years. In response to changes in social and business conditions, the Company switched its primary business focus from over-the-counter drugs to prescription drugs, and ventured into biopharmaceuticals ahead of its industry peers. We have never been afraid to change or to take risks. The turning point that laid the foundation for our current business model was the strategic alliance we began with Roche in 2002. I conducted negotiations for the alliance as head of the working group under your supervision, but I was deeply aware of how significant it would be for the medicines that Chugai creates to contribute to healthcare globally.

Nagayama Diseases have no borders. Chugai exists to create innovative drugs that address unmet medical need,¹ but unless we deliver value to patients worldwide, we cannot fulfill that role. And there are limits to how much of the enormous cost associated with creating new drugs can be covered by a single

Diseases have no borders, so Chugai has to deliver value globally. We will enhance our corporate value by continuing to innovate for the benefit of patients around the world.

Osamu Nagayama
Representative Director & Chairman



company. The formation of this unique alliance, in which we are a member of Roche Group but still maintain our stock listing and management autonomy in Japan, was a decision we made in order to continue pursuing innovation independently as an R&D-driven company.

In 2017, the fifteenth anniversary of the alliance, Chugai's revenues and operating profit have more than tripled and our market capitalization has grown about 9 times² compared with their levels before the partnership. I see this as proof of the value of the business model we established through the alliance.

Creating a unique business model enabled global growth.

Kosaka I agree. At the party held when the alliance was formed, someone said in a speech that "Chugai has become a global company overnight," and that really is true.

These last 15 years can be divided into three periods. In the first phase up to 2008, we were busy bringing the management of the "New Chugai" up to a global level. We carried out clinical development, regulatory filings and launches of

multiple large projects simultaneously to make the products sold by Roche worldwide available in the Japanese market, which was an unprecedented challenge for us. At the same time, we introduced a project lifecycle management system and a Specialty MR system, carried out business process reengineering, and made other enhancements in anticipation of business scale expansion.

With the establishment of this business foundation during this phase, we were ready to step up our efforts in the second phase from 2009 to 2014 toward becoming a "top pharmaceutical company".

Nagayama In 2009, we set our fundamental goal of becoming a top pharmaceutical company, backed by the growth of our employees.

The source of corporate value is people. The quality and volume of the global-level work our people experienced following the start of the

1. Medical need that is not adequately met due to a lack of effective treatments
2. As of December 31, 2017

In a time of structural change for the healthcare industry, our people will be the key to benefiting patients. Backed by their talents, we will pursue innovation to achieve growth in the medium to long term.

Tatsuhiro Kosaka
Representative Director,
President & CEO



alliance in 2002 significantly boosted their professional development. We had already established top positions in oncology and antibody research, but the awareness of our employees had not kept pace with the rapid expansion of our business in certain aspects.

Our next task was to instill in employees a mindset of setting ambitious goals for themselves rather than following other companies, and working with pride and awareness as an industry leader. That's why we set the goal of becoming a top pharmaceutical company.

We laid out a clear vision and encouraged the autonomous change of individual employees, which helped to raise the level of our subsequent activities. I think this prepared us to deliver unprecedented value to patients and the medical community in all our functions as a leading company, in ways such as continuous generation of innovative projects, promotion of personalized healthcare, and enhancement of safety management.

Kosaka That brings us to the third phase from 2015 to the present. The goal of becoming a top pharmaceutical company is now well established among our

employees, and we are taking on the challenge of new fields on our own through acquisition and implementation of competitiveness at a top global level. Mid-term business plan IBI 18, which incorporates our message of "Innovation beyond Imagination," is a management plan for taking on unprecedented challenges.

Nagayama When I look back at our growth since the start of the alliance, I think it has been driven by our pursuit of innovation in every aspect of our business and by Chugai's unique earnings structure.

Chugai has two growth engines. One is the products we in-license from Roche. Exclusively selling the Roche Group's groundbreaking therapies in Japan provides a stable revenue base. That stability has allowed us to tackle more challenging and innovative projects in our own research activities, our second growth engine. The innovative products resulting from that research are sold in the global market through the Roche Group. This is a revenue base that drives growth, and provides the capital for pursuing further innovation.

Definition of a "Top Pharmaceutical Company" (The company Chugai aims to become by the late 2010s)

A company that focuses on first-in-class¹ and best-in-class² products and services, and continuously provides new solutions to patients and medical communities around the world.

— Innovation all for the patients —

1. An original drug that is highly novel and useful, and will significantly change the therapeutic system
2. A drug that offers clear advantages over other existing drugs in the same category, such as those with the same molecular target

Quantitative Aspects

1. Among the top three Japanese pharmaceutical companies in the following:

- Domestic market share
- Ratio of consolidated operating profit to revenues
- Consolidated operating profit per employee
- Domestic sales per medical representative

2. No. 1 presence in strategic disease areas

- Oncology/Renal/Bone & Joint/RA: Top-class sales share and stakeholder satisfaction

- Establishment of top brand in hospital market by supporting medical liaison networks between medical professionals

3. Expansion of global presence

- Higher overseas sales ratio
- Number of large global products in lineup
- Number of global projects in late-stage development
- Continuous addition of first-in-class and best-in-class in-house projects to the portfolio

Qualitative Aspects

1. A company that satisfies all its stakeholders and receives their active support and trust

2. A company that works proactively on a global level

- Continuous creation, development, and domestic and overseas launches of products with a competitive advantage in clinical results
- Contribution to the Roche Group's results through product-appropriate fostering and sales
- Leadership in pharmaceutical industry activities
- Activities in which all employees have an awareness, sense of responsibility and pride as part of a top pharmaceutical company

Industry-leading discovery capabilities lead to major value creation.

Nagayama Chugai's drug discovery capabilities are also an important growth engine for the Roche Group. Actemra and Alecensa, which were both discovered by Chugai, are being brought to patients around the world through Roche, and are contributing to the Roche Group's earnings. The fact that five³ of the Roche Group's 19³ breakthrough therapy designations (BTDs)⁴ were for projects originating from Chugai research indicates the high level of our innovation capabilities.

Chugai was one of the first companies in Japan to begin discovery research using biotechnology and has established a world-leading technological platform, including antibody engineering technologies. The therapeutic antibodies and other drug candidates we discovered are now entering the clinical stage of development one after another. We are also working on creating middle molecule drugs as our next-generation technology in pursuit of value creation driven by advanced science and technology.

Kosaka In 2017, the second year of IBI 18, our strengths began to yield real results. As such, it was a pivotal year for us. In terms of financial performance, we achieved record revenues and operating profit, and the quantitative and qualitative objectives we set for becoming a top pharmaceutical company are now within reach.

In terms of strategy, Hemlibra, a product from Chugai research that promises to be one of our most important growth drivers, was launched first in the United States for hemophilia A with inhibitors, following simultaneous regulatory filings in Japan, the United States and Europe. This is a very significant achievement. Hemlibra is an innovative drug that was discovered using Chugai's proprietary bispecific antibody technology, and we were able to carry out rapid global development and a quick market launch through the Roche Group's network. It is thus a project that exemplifies the strength of our business model. As a drug that brings innovation to hemophilia treatment, Hemlibra is expected to offer significant benefit to patients worldwide. We also steadily advanced our priority agenda, including the smooth development progress of Tecentriq, another key growth driver, the establishment of a biological API production system to handle high-mix, low-volume production, and the development of a new system for providing solutions based on cooperation among the Marketing & Sales, Medical Affairs and Drug Safety divisions.

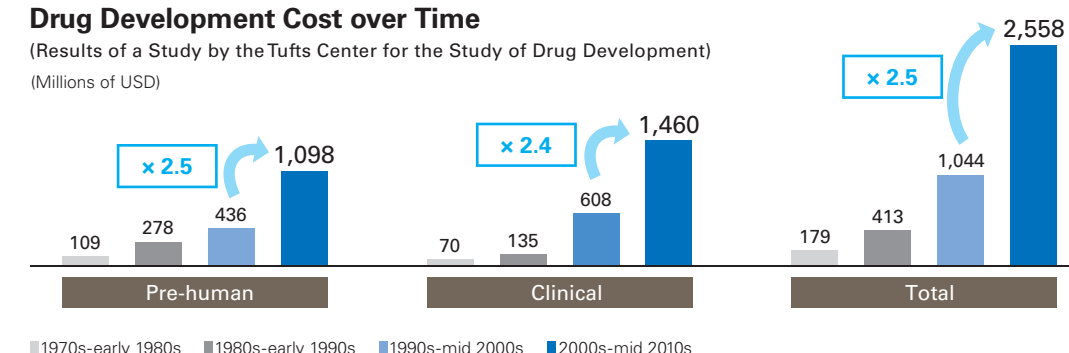
In 2018, the final year of IBI 18, the market environment is expected to pose challenges, such as the biannual NHI drug price revisions. However, we are committed to successfully completing our strategies in all functions – discovery, clinical development, manufacturing and solution provision – and adding to our accomplishments to wrap up our efforts during the three years of the plan.

3. As of February 1, 2018
4. A system introduced in July 2012 by the U.S. Food and Drug Administration aimed at expediting the development and review of drugs for the treatment of severe or life-threatening diseases or symptoms

Drug Development Cost over Time

(Results of a Study by the Tufts Center for the Study of Drug Development)

(Millions of USD)



Source: DiMasi, J.A., *Journal of Health Economics* (2016) 47: 20-33

The only response to structural changes in the industry is to pursue innovation.

Kosaka As we go forward, disruptive technologies such as artificial intelligence, the Internet of Things and nanotechnology are expected to bring about what has been described as the Fourth Industrial Revolution. In addition, there are threats to sustainability, including declining birth rates, aging populations, environmental degradation, and ballooning public debt. The interaction between these issues is likely to usher in a period of dramatic change unlike any we have ever experienced. In the healthcare industry, although new medical technologies are expected to generate new demand, competition is sure to intensify with the entry of players from other industries, and the global rise in social security costs and weakening fiscal positions will inevitably lead to further measures to control healthcare costs.

In order to continue creating value going forward, Chugai has to make the most of its strengths and prepare for the coming changes in the industry structure. The only way to do this is by pursuing innovation.

Nagayama Chugai's driving force truly is innovation. On the other hand, innovation – that is, the creation of novel medicines – is becoming increasingly difficult. Global competition to develop new drugs has intensified as the difficulty of development rises and technological advances drive up costs. According to one study,⁵ successfully developing a new drug and bringing it to market requires investment of as much as U.S.\$2.5 billion (roughly ¥300 billion), including the cost of projects that quietly fail. It is hard for a pharmaceutical company to grow and survive without the financial strength to shoulder that burden.

However, drug development is highly specialized by nature, so the risks associated with the business, the process of innovating, and the various technologies and amount of investment required are not well understood by the public. Unless innovation is properly valued, pharmaceutical companies cannot create breakthrough drugs to cure diseases that have no existing treatments. Life science, which includes the pharmaceutical industry, is a field that uses precise and advanced science and technology. It will continue to be a growth sector in the global industrial structure.

5. In a study by the Tufts Center for the Study of Drug Development (see graph on page 7), it was estimated that development of a single drug requires investment of approximately U.S.\$2.5 billion (approximately ¥300 billion) based on the clinical development success rate.

Kosaka The pharmaceutical industry as a whole should be engaging in a discussion on health economics and the balance between innovation and cost. As a leader in the industry, Chugai should do what it can to encourage such debate.

In addition, while we have grown on the strength of our unique business model and technologies, there is no guarantee that this growth will continue indefinitely. As I said earlier, technological innovation with the potential to transform society is advancing. To continue innovating, we must think beyond the conventional framework of drug discovery.

In this context, while realizing advanced pharmaceutical treatments in our core realm of “the pill,” we must expand our efforts “around and beyond the pill,” in other words, beyond the borders of the pharmaceutical industry. In the realm of the pill, we will continuously produce innovative medicines by leveraging our existing strengths as well as middle molecule discovery technology – our next-generation core technology – and open innovation⁶ that includes cutting-edge immunology research through a comprehensive alliance with IFRc.⁷ Around the pill, in the realm of solutions bordering on medicines, we will start offering a genomic testing service that uses a next-generation sequencer in the business with Foundation Medicine Inc. (FMI) that we will launch on a full scale in 2018. We want to take advantage of the synergy of this service with the pharmaceutical business so that we can contribute to the advancement of personalized healthcare and genomic medicine. Beyond the pill, in fields beyond medicines, we intend to work toward greater innovation in various ways including through collaboration with partners in other industries while harnessing the so-called Fourth Industrial Revolution as an opportunity for innovation. Led by the Science & Technology Intelligence Department established in April 2017, we plan to link these efforts to a growth scenario as our first initiative.

The next mid-term business plan is currently being drawn up. We intend to disclose the specifics of our growth strategy when the plan is announced.

Under the new CEO structure, we will aim for continuous innovation and greater corporate value.

Nagayama The year 2017 was very significant for Chugai. The initiatives we have taken began to yield results; we marked the fifteenth anniversary of the alliance with Roche; and, for me, it was the twenty-fifth year since I was first appointed President. Now, 2018 will be the year we prepare the next mid-term business plan as we approach our goal of becoming a top pharmaceutical company. I thought the timing was right to pass the baton to a new CEO, and Mr. Kosaka accepted. I will focus on supervising management as Representative Director & Chairman so that Chugai creates value befitting a top pharmaceutical company, including value from an environmental, social and governance (ESG) perspective.

Kosaka When I heard that I was going to be named the new CEO, I was very surprised, but I also felt a tremendous sense of responsibility and motivation.

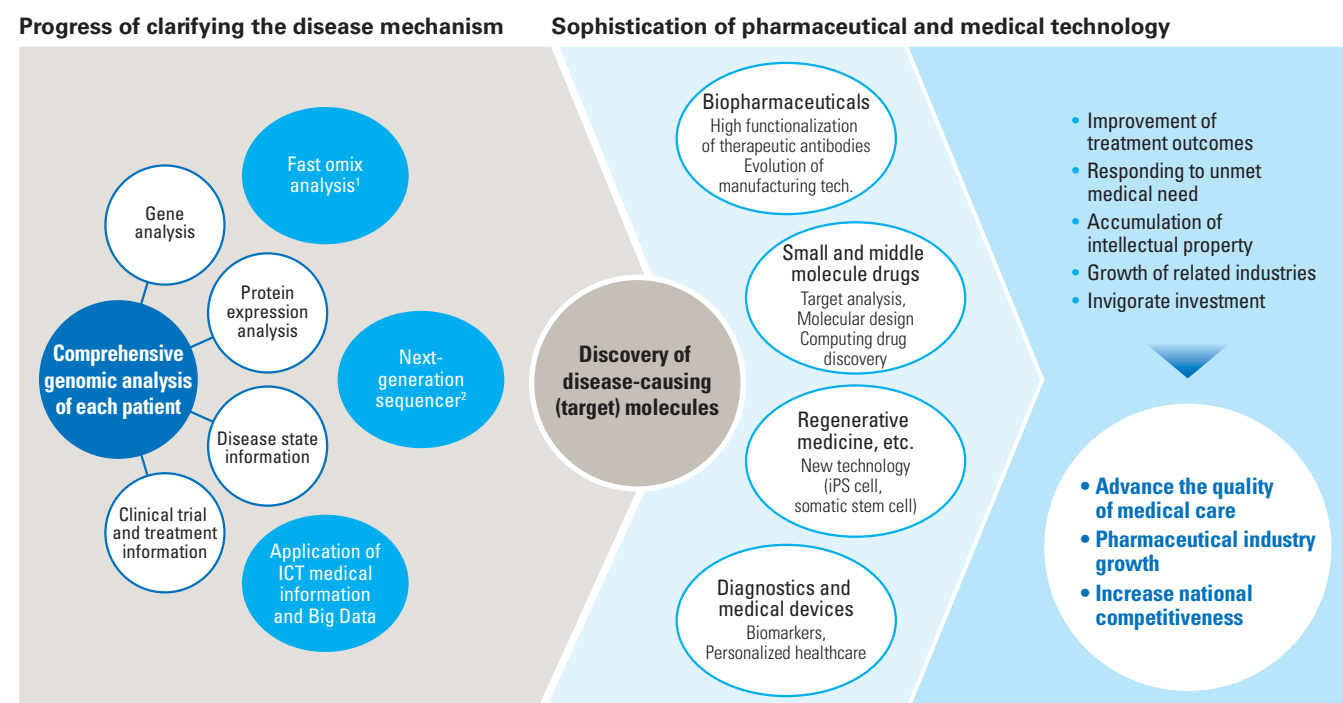
As you said, our people are the key to pursuing innovation for the benefit of patients. Under IBI 18, I made a commitment to revamp our human resource strategy and talent management system to develop the next generation of managers. We have identified seven global competencies as the parameters for the type of people we seek, and by linking productivity, diversity and work-life synergy, we intend to be a company where talented people have the freedom to reach their full potential. I will place the highest importance on fostering an energetic, enjoyable and positive corporate culture because I believe such a culture is fertile ground for nurturing the seeds of innovation.

With people as its greatest asset, Chugai will further increase its corporate value by continuing to innovate. You can expect great things from Chugai as we move forward.

6. Generating innovative, new value by utilizing the technologies and development capabilities of external research networks in addition to in-house capabilities

7. Osaka University Immunology Frontier Research Center

Clarification of Disease Mechanisms and the Advancement of Emerging Drug Discovery Technologies



1. Comprehensive analysis, recording and use of in vivo DNA, protein and other molecules
2. A device that is capable of sequencing genomes at high speed

Deputy Chairman on Engagement with Society

Solutions That Fit the Times

Chugai's mission is to benefit the medical community and human health around the world. As such, the role we play is continually changing. The pharmaceutical industry is facing an era of uncertainty marked by trends such as a declining birth rate and aging population, the growing need to contain healthcare costs, and low success rates and rising costs in research and development. In these circumstances, Chugai's presence in the industry is increasing. For this reason, we must address larger societal issues together with our stakeholders. One of the qualitative objectives of Chugai's fundamental goal of becoming a top pharmaceutical company is to be a "company that satisfies all its stakeholders and receives their active support and trust." I believe that by using innovation to solve the issues facing patients and the medical community, we will earn the trust of society.

Value Creation: Progress and Results

In 2017, our numerous research and development projects showed progress, and new drug approvals and launches were on schedule. Chugai's efforts continued to focus on providing solutions for social

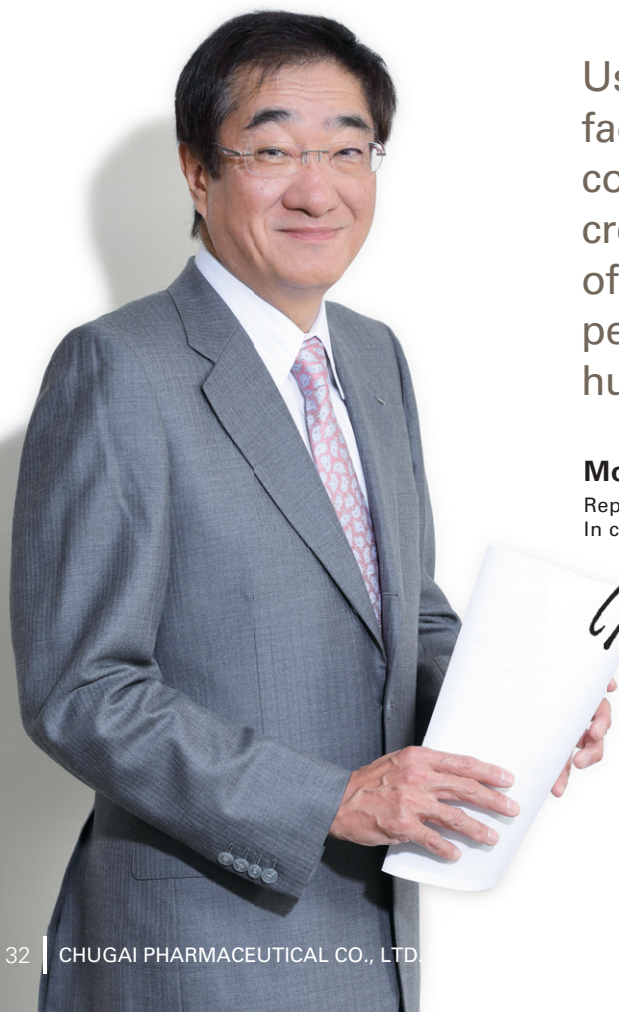
issues by creating innovative drugs and making them available to patients as quickly as possible. However, our achievements for the year went beyond that. For example, we promoted the use of extensive safety information through the databases we built to support effective adverse drug reaction management and continuation of treatment for patients. In addition, we contributed to community-based care by establishing a solution provision system adapted to the new regional healthcare system that will begin in 2018 in Japan. We see all of these accomplishments as major steps forward.

Helping patients gain an accurate understanding of their disease and improving their social and treatment environments are also issues that we can help to address, and we made progress in these areas as well. For disease awareness, in addition to the existing activities that we conduct jointly with local public bodies, we began cooperating with companies in other industries to increase the effectiveness of our efforts. We also implemented programs to support employees during cancer treatment and after they return to work, based on the belief that this is an activity in which Chugai should take the lead. In these and other initiatives, we are at the forefront of the industry in Japan.

Using innovation to solve the issues facing patients and the medical community is Chugai's vision of value creation. We will meet the expectations of our stakeholders by fusing economic performance, social awareness and human development on a higher plane.

Motoo Ueno

Representative Director & Deputy Chairman
In charge of Corporate Social Responsibility Dept., Audit Dept.

Meeting the Requirements and Expectations of Society

In our internal operations, we have made improvements to governance and our human resource strategy. One initiative in particular that I have spearheaded is strengthening compliance at the global level. At Chugai, we believe that corporate ethics take priority over profits, and as such, our definition of compliance goes beyond simply following laws and regulations to include meeting the requirements and expectations of society. With the increase in our global activities, it was important that we also build a robust global compliance system. We began that effort in 2016, and in 2017 we reorganized our committee structure and established a global system that includes overseas subsidiaries. The new system has enabled unified management of corporate compliance,¹ healthcare compliance² and regulatory compliance,³ which had been handled separately. To promote the new system in frontline operations, I personally visited our overseas subsidiaries to talk about it with employees and exchange ideas, and I think our message was well received. We will continue such activities as we go forward.

Considering Strategies from a Long-Term Perspective

In the long term, advances in artificial intelligence and other disruptive technologies are likely to have a significant impact. In the medium term, it is important that we adopt these technologies to create added value, and in the long term we must also consider using them as tools to address outstanding social issues and deal with those that newly emerge. Cooperation with companies from other industries will be a key management priority in such initiatives, and we will work to enhance such collaborative efforts to generate further innovation.

To achieve sustainable long-term growth under these conditions, we must more clearly define the issues we should help to address and the value we offer, and act more strategically. Accordingly, in tandem with the formulation of the next mid-term business plan in 2018, we will also consider establishing a long-term vision and targets for non-financial aspects of our business after analyzing the social environment and identifying the value that we can contribute.

Corporate Value through Economic Performance, Social Awareness and Human Development

Underlying Chugai's approach to value creation that I have outlined is the consistent and firm belief that our corporate value is a comprehensive product of our economic performance, social awareness and human development, and that it is important to fuse these three elements on a higher plane. Ten years have passed since we established our CSR policy and started managing CSR action plans and their progress. Initially, many employees viewed CSR and business as separate endeavors, but through continued proactive communication within the Company, and diligent efforts by managers at every level to link our concept of economic performance, social awareness and human development to daily business activities and apply it in each job, I am proud to say that the concept has taken root.

Our vision for value creation is now widely shared. In my view, there is no better foundation for corporate growth and development. Through innovation, Chugai will continue to advance value creation that benefits the medical community and patients around the world. We appreciate your ongoing support.

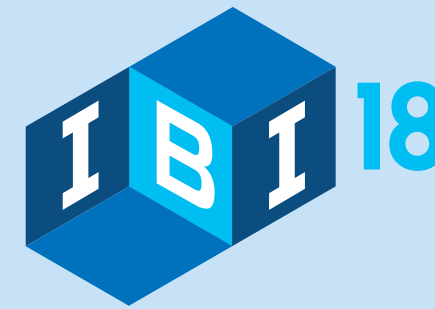
1. Defined by Chugai as compliance with general laws, industry standards, Company rules and other regulations, as well as with societal norms and values
2. Defined by Chugai as compliance in general business operations related to conducting clinical testing, clinical research and nonclinical research, support operations, collecting medical information and providing drug information
3. Defined by Chugai as compliance with pharmaceutical regulations in Japan and overseas and with Company rules and procedures based on those regulations

Chugai Business Conduct Guidelines (Chugai BCG)

In order for the Chugai Group to fulfill its Mission Statement, be trusted and selected by society for its faithful conduct, and make sustained contributions to society, the Chugai BCG has been established as a set of standards governing both corporate and individual employee behavior based on the Core Values of the Chugai Mission Statement.

- **Responsibility to Patients and Consumers**
We will always put the patient and the consumer first, and provide high-quality products and services of superior safety and efficacy.
- **Strict Adherence to the Law**
In all our business activities, we will strictly adhere to all laws and their underlying principles.
- **Respect for Human Rights**
We will respect human rights in every aspect of our business activities.
- **Fair Trade**
We will engage in fair and transparent transactions with medical institutions and organizations, suppliers, customers and other business partners.
- **Management of Corporate Assets**
We will achieve our management objectives through the optimal and appropriate management and use of corporate assets.
- **Disclosure of Information**
We will actively and fairly disclose our corporate information in accordance with both legal requirements and the principles of social justice.
- **Social Contribution**
We will remain aware of our responsibility as a good corporate citizen and actively continue with our social action programs.
- **Protection of the Global Environment**
We believe the supreme value to the future of "one and only Earth" and, therefore, we continue our efforts to reconcile our business activity with nature and environments.
- **Relations with Governmental and Administrative Bodies**
We will maintain fair and transparent relations with policymakers and administrative bodies.
- **Relations with External Bodies**
We will maintain fair and transparent relations, within reason, with external bodies.

Overview of Mid-Term Business Plan IBI 18



INNOVATION BEYOND IMAGINATION

Quantitative Outlook

Core EPS CAGR
(2015-18)

Low single digit¹

- In the three years of IBI 18, we will establish a solid foundation for dramatic growth in the 2020s.
- We will continue to target a Core EPS payout ratio of 50 percent on average.

1. Growth less than 4%, based on average exchange rates for 2015

External Environment

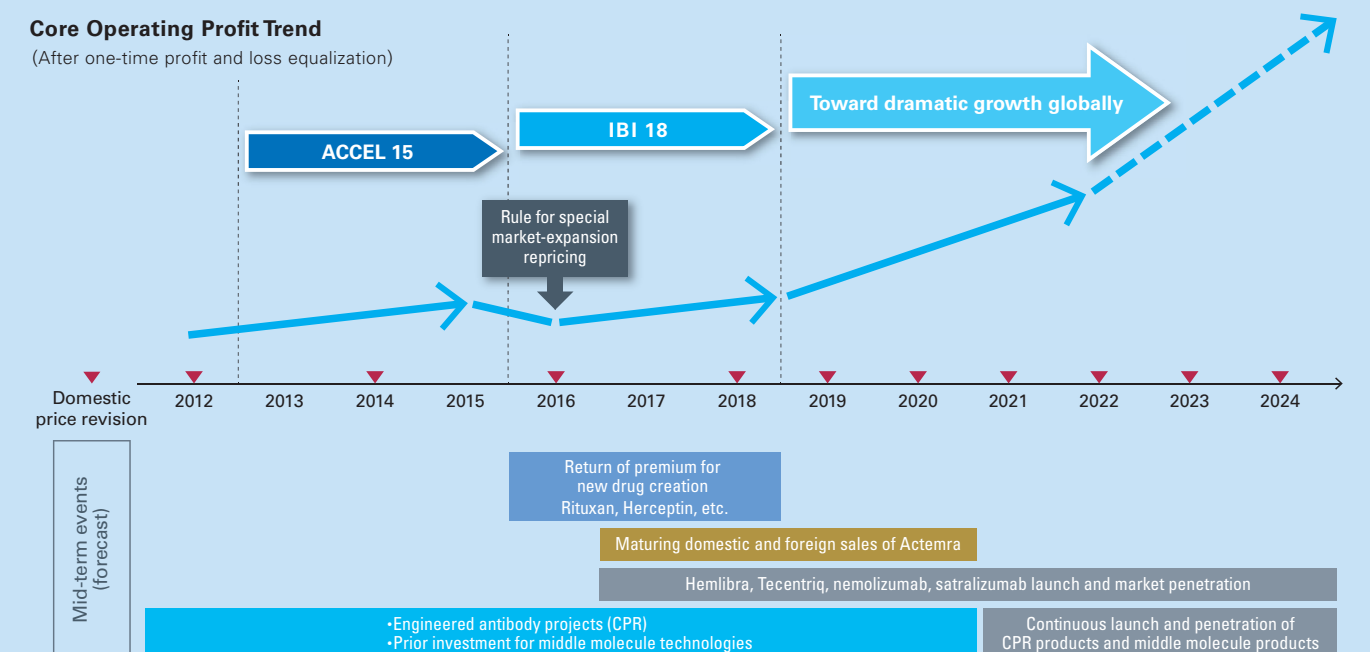
Opportunities	Risks
<p>Global</p> <ul style="list-style-type: none"> > Increasing importance of pharmaceuticals due to growth and aging of the global population > Expansion of opportunities to generate innovation based on advancements in life science and information and communications technology (ICT) <p>Japan</p> <ul style="list-style-type: none"> > Initiatives to promote development of breakthrough therapies, including establishment of the Sakigake designation system (fast-track review system) and the inauguration of the Japan Agency for Medical Research and Development 	<p>Global</p> <ul style="list-style-type: none"> > Progress of measures to curb healthcare costs in various countries > Increasing competition in innovation among companies > Declining success rates and rising costs in research and development > Possibility that major pharmaceutical companies will launch biosimilars² > Dramatic changes in the competitive environment due to disruptive technologies and new entrants from different industries > Tightening of regulations for safety, quality assurance, marketing and other areas <p>Japan</p> <ul style="list-style-type: none"> > Strong pressure to contain drug costs with the rapidly aging population and financial difficulties (Revision of the NHI drug pricing system) > April 2016 introduction of a rule for special market-expansion repricing

2. Successor products to biopharmaceuticals whose patent term has expired, made by manufacturers other than the manufacturer that developed the antecedent biopharmaceutical

Mid-Term Events and Performance Trend

Core Operating Profit Trend

(After one-time profit and loss equalization)



Priority Agenda of IBI 18

<ul style="list-style-type: none"> Acquisition and implementation of competitiveness at a top global level Selection and concentration strategy for acceleration of growth 			
Drug Discovery	Development	Pharmaceutical Technology	Marketing & Sales/Medical Affairs/Drug Safety
<ul style="list-style-type: none"> Continuous creation of engineered antibody projects Establishment of drug discovery technologies for middle molecules Strengthening of research base for oncology/immunology 	<ul style="list-style-type: none"> Acceleration of Hemlibra and Tecentriq as a top priority Realization of early PoC with TCR³ Strengthening process for proof of medical/economic value 	<ul style="list-style-type: none"> Enhancement of CMC⁴ development infrastructure for early PoC acquisition Strengthening competitive advantages from late development to initial commercial production Strengthening QA, QC and regulatory functions 	<ul style="list-style-type: none"> Realization of sales growth by concentrating on sales driver products, Hemlibra and Tecentriq Providing advanced solutions through cross-functional teams Establishment of system adapted to local characteristics
Company-wide			
<ul style="list-style-type: none"> Acquisition, development and assignment of global top-class talent to lead value creation activities through innovation 			

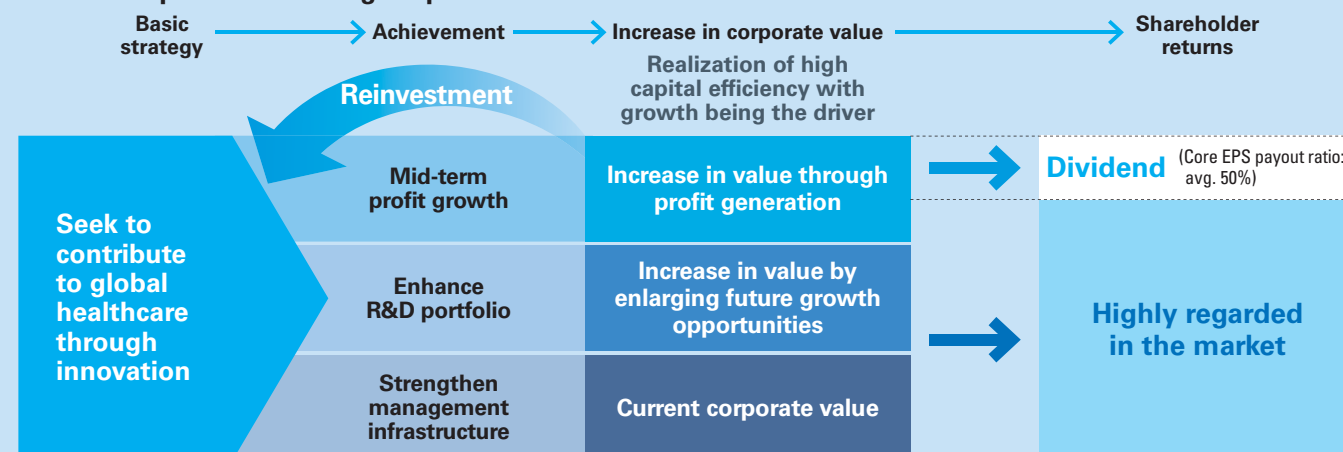
- Expansion of achievements through selection and concentration utilizing competitive advantage
- Strengthening competitive foundation for global top-class level

3. Translational clinical research: Clinical research during preclinical stage to PoC that clinically verifies the scientific concept that was developed through drug discovery operations
 4. Chemistry, Manufacturing and Controls: A concept that integrates API process research and pharmaceutical development research with quality evaluation research

Priority Agenda for 2018

<p>Continuous creation of innovative engineered antibody projects and establishment of drug discovery technologies for middle molecules</p> <ul style="list-style-type: none"> Initiate clinical trials for two antibody projects: 2018-2019 Further progress in middle molecule drug discovery: select a clinical drug candidate by the completion of IBI 18
<p>Secure development of growth-driver projects</p> <ul style="list-style-type: none"> Regulatory filing for seven projects <ul style="list-style-type: none"> Hemlibra: hemophilia A without inhibitors (Japan, U.S., E.U.) Tecentriq: three line extensions (renal cell carcinoma (RCC), breast cancer, 1st line non-small cell lung cancer (NSCLC)) Actemra (systemic sclerosis), Avastin (RCC), Edirof (osteoporosis [China])
<p>Strengthen the system for providing solutions and secure market penetration of new products</p> <ul style="list-style-type: none"> Fastest maximization of value of four new products (Tecentriq, Alaglio, Hemlibra, obinutuzumab) and Perjeta line extension (adjuvant breast cancer) Hemlibra co-promotion in Europe Collaboration with Foundation Medicine Inc.: contribute to PHC with cancer genomic medicine as the No. 1 company in oncology

Basic Principles of Increasing Corporate Value and Shareholder Returns



CEO on Chugai's Strategy

IBI 18, a plan to enhance competitiveness and accelerate growth to achieve our goal of becoming a top pharmaceutical company, has progressed very smoothly. The operating environment is likely to remain difficult in 2018, but with our stronger competitive foundation, we will add to our accomplishments and solidify our contribution to all stakeholders through innovation. The keys to our success will be raising the capabilities of our people and pursuing innovation. Chugai remains committed to enhancing its corporate value.

The progress of IBI 18 has been remarkably smooth.

IBI 18 is our mid-term business plan for the three years from 2016 to 2018. The plan is aimed at acquiring and implementing competitiveness at a top global level and pursuing a selection and concentration strategy for acceleration of growth. In addition to fundamental changes to the drug pricing system in Japan and intensifying global competition in drug development, trends such as the entry of major pharmaceutical companies into the biosimilar business and the emergence of disruptive technologies that lead to completely new value are making the future business environment harder to predict. Therefore, under IBI 18 we are using our existing strengths to enhance our competitiveness in every function and pursue innovation as we seek to transform into a globally successful company in an uncertain environment.

As of the end of 2017, the second year of IBI 18, our progress has been remarkably smooth. All employees have worked hard to achieve the very high strategic goals we set for every function, and virtually all measures are moving ahead steadily. Results in several areas have even been better than planned. I am very proud that we have demonstrated to our stakeholders a strong ability to deliver on our strategies.

In 2017, we laid the groundwork for further progress globally.

Both revenues and profits in 2017 exceeded our targets and set new records. This is largely attributable to the increase in exports, royalties and other operating profit resulting from growth of global products from Chugai research, namely Actemra, a treatment for rheumatoid arthritis, and Alecensa, a treatment for ALK-positive non-small cell lung cancer.

Strategically, we achieved an important milestone for future strong growth in the global market with the launch of Chugai product Hemlibra (ACE910), a top-priority project. Applications for regulatory approval of Hemlibra for the treatment of hemophilia A with inhibitors were filed in June in the United States and Europe, and in July in Japan. In November, it obtained approval in the United States, where it was launched for the first time in the world. Alecensa, another product from Chugai

research, was initially launched in Europe in February for second-line lung cancer treatment, and was approved for the additional indication of first-line treatment in November in the United States and in December in Europe. Among products in-licensed from Roche, we filed an application in Japan for approval of anti-PD-L1 antibody Tecentriq in second-line treatment of lung cancer. This project uses cancer immunotherapy, which has gained attention as a new type of cancer treatment. Approval was obtained in January 2018.

Other strategic initiatives are also progressing smoothly, including the establishment of a technology platform for middle molecule discovery and optimization of the production system for simultaneous development and rapid launches of multiple antibody projects. Under the new system for providing solutions that we established in Japan in April 2017, we began providing expert consultation and moved forward with initiatives suited to regional healthcare needs through collaboration among the Marketing & Sales, Medical Affairs and Drug Safety divisions. The measures in IBI 18 for enhancing our competitiveness at a top global level are almost complete, and we are now ready to add to our accomplishments in the final year of the plan.

Chugai is making solid progress in implementing its roadmap for value creation.

Tatsuro Kosaka
 Representative Director,
 President & CEO



In 2018, we will complete IBI 18 and build on our achievements.

In 2018, the final year of IBI 18, we will complete the measures under our three-point priority agenda for the year supported by the competitive foundation we have established and build on our achievements.

The first objective in the priority agenda is "continuous creation of innovative engineered antibody projects and establishment of drug discovery technologies for middle molecules." Using our antibody engineering technologies, we will accelerate the creation of new therapeutic antibody projects, and expect to initiate clinical trials for two antibody projects in the period from 2018 through 2019. In middle molecule drug discovery, we are eyeing the start of clinical trials during the next mid-term business plan, and hope to select a clinical candidate by the end of 2018.

The second objective is to "secure development of growth-driver projects." We are planning regulatory filings for seven projects, including for the development of Hemlibra for hemophilia A without inhibitors in Japan, the United States and Europe, and three line extensions for Tecentriq.

The third objective is to "strengthen the system for providing solutions and secure market penetration of new products." We aim for the fastest

maximization of value based on appropriate use for four new products – Tecentriq, Alaglio, Hemlibra and obinutuzumab (GA101) – and a Perjeta line extension (adjuvant therapy for breast cancer). In addition, we will roll out the comprehensive gene profiling technology of Roche Group company FMI in Japan to contribute further to the advancement of personalized healthcare through cancer genomic medicine. In the FMI business, we plan to offer an information service with diagnostic functions by detecting alterations in 324 cancer-related genes in a single operation, which enables companion diagnostics and gene profiling. We are now setting up the organizational structure for the start of this business, centered on the PHC Strategy Department, which will be established in April 2018.

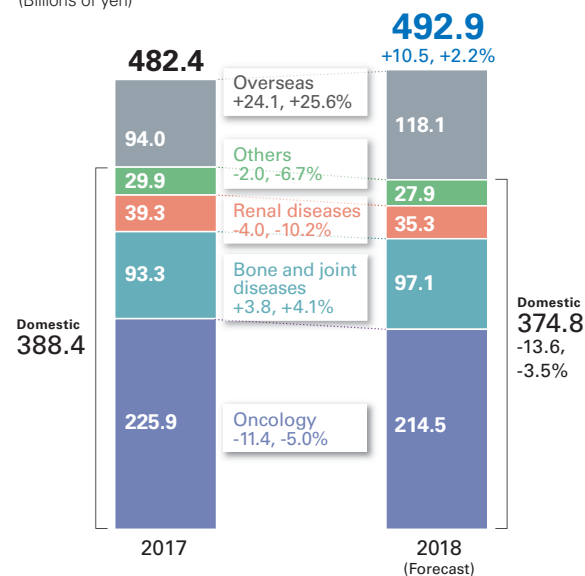
We expect to exceed the quantitative outlook of IBI 18 by a wide margin.

In 2018, despite the significant impact of the NHI drug price revisions, we forecast that revenues and Core operating profit will increase to ¥541.5 billion and ¥108.0 billion, respectively, driven by growth of new and mainstay products in Japan and overseas. As a result, we now anticipate that the Core EPS compound annual growth rate (CAGR) in the quantitative outlook of IBI 18 will be 9.5 percent,¹ well above the original low-single-digit target.

1. Based on average exchange rates for 2015

2018 Sales Forecast (Excluding Tamiflu)

(Billions of yen)



Category	Product	2017 Sales (Bil. Yen)	2018 Forecast Sales (Bil. Yen)	Change (Bil. Yen)	Change (%)
Overseas	Alecensa	26.4	30.0	+3.6	+12.5 (+89.9%)
	Actemra	73.0	85.1	+12.1	+19.9%
	Hemlibra	2.0	1.9	-0.1	-35.5%
Renal diseases	Oxarol	5.8	4.4	-1.4	-29.3%
	Edirol	31.7	33.8	+2.1	+7.1%
Bone and joint diseases	Actemra	35.2	37.3	+2.1	+6.3%
	Bonviva	9.9	11.1	+1.2	+13.8%
	Alecensa	22.7	28.7	+6.0	+35.9%
Oncology	Alaglio	0.7	0.7	0.0	(—)
	Tarceva	9.8	8.9	-0.9	-6.7%
	Avastin	92.0	90.9	-1.1	-1.2%
	HER2 franchise	49.5	43.6	-5.9	-10.3%
	Rituxan	23.4	13.4	-10.0	-29.9%

Note: Details of HER2 franchise: Herceptin (26.6) -7.0 (-20.8%), Perjeta (14.6) +1.0 (+7.4%), Kadcyla (8.3) +0.3 (+3.8%)

For dividends, we maintain our policy of targeting a Core EPS² payout ratio of 50 percent on average based on stable dividends, after taking into consideration strategic funding needs and the results forecast. In line with this policy, we declared total dividends of ¥62.00 per share for 2017, an increase of ¥10.00 from the previous year, for a payout ratio of 44.7 percent. We expect to keep dividends at ¥62.00 per share in 2018 and plan to use internal reserves to make efficient investments to explore future business opportunities, which will increase corporate value, leading to greater shareholder value.

We are making solid progress in implementing our roadmap for value creation.

Products from Chugai research, including Alecensa and Hemlibra, and groundbreaking products in-licensed from Roche, such as Tecentriq, are Chugai's two growth pillars that will drive business expansion. In addition, we are steadily laying the foundation for further growth in the future, a foundation which includes the continuous generation of innovative antibody projects that apply our proprietary antibody engineering technologies and the creation of middle molecule drugs. In this way, we are making solid progress in implementing our roadmap for value creation.

Meanwhile, we are working to establish even more profitable operations by further improving our cost structure and conducting work style reforms for higher productivity which center on realizing diversity and inclusion and raising work-life synergy.

The key to our success will be increasing the capabilities of our people, the source of our corporate value. And as always, we will continue to concentrate on innovation. Through this approach, we will accomplish our mission of providing innovative products and services and expand the benefit we bring to patients and all other stakeholders. We believe that the results of this innovation will be assessed favorably by financial markets and lead to stable dividends.

I recently became the CEO of Chugai. My highest priorities are to contribute to patients and to pursue innovation, and I pledge to focus all my efforts on enhancing Chugai's corporate value, including non-financial value from an environmental, social and governance (ESG) perspective. Chugai will continue to transform itself as part of its commitment to growth. We appreciate your ongoing support.

2. Diluted net income per share attributable to Chugai shareholders after deducting items that Chugai defines as non-core items

Progress toward Quantitative Targets for Becoming a Top Pharmaceutical Company (2017)

1. Gain a position among the top three major Japanese pharmaceutical companies¹

Domestic sales share	Ranked 5th ²	△
Ratio of consolidated operating profit to revenues	Ranked 4th	△
Consolidated operating profit per employee	Ranked 3rd	○
Domestic sales per MR ³	Ranked 2nd	○

2. Gain the top share in our strategic disease areas in Japan²

Oncology	Ranked 1st	○
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Other main areas in 2017: Renal (ESA): 2nd, Osteoporosis: 2nd, Rheumatoid arthritis: 3rd

3. Increase overseas revenues ratio

Overseas revenues ratio	23.1%	○
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○ = Achieved △ = Almost achieved

1. Financial results: Chugai: 2017, other companies: Years ended December 31, 2016 or March 31, 2017

2. Copyright © 2018 IQVIA. Source: JPM 2017. Reprinted with permission. The scope of the market is defined by Chugai.

3. Calculated by Chugai, based on data from Fuji-Keizai Co., Ltd.

Progress of IBI 18

Established foundation to acquire and implement competitiveness at a top global level

Drug Discovery	Development
<ul style="list-style-type: none"> Cutting-edge immunology research in comprehensive collaboration with IFRc Initiated clinical trials for two in-house engineered antibody projects Advancement in middle molecule drug discovery research 	<ul style="list-style-type: none"> Hemlibra trilateral regulatory filing (U.S., E.U. and Japan) and U.S. approval Progress of Tecentriq development in multiple cancer types and approval in 2nd line NSCLC
Pharmaceutical Technology	Sales/Medical Affairs/Safety
<ul style="list-style-type: none"> Progress in construction of high-mix low-volume production site for antibody API Completion of FDA pre-license inspection for Hemlibra and enhancement of QC, QA, regulatory system for global supply 	<ul style="list-style-type: none"> Established a new system for providing solutions initiated through collaboration of three divisions Area strategy scheme to meet diverse regional medical need

CFO on Engagement with Investors

I was appointed CFO of Chugai on March 22, 2018. In my 35 years at Chugai I have been involved in planning and finance-related work. In the last few years, I was in charge of the Finance & Accounting Dept. under the former CFO, but now I will be performing the duties of the CFO myself.

Chugai will continue to tirelessly take on challenges as a top pharmaceutical company that consistently provides innovative products and services. To ensure

that Chugai remains in a position to do so, I will plan and implement strategies and work to effectively and efficiently allocate and use its assets. I want to create opportunities for dialogue with both internal and external stakeholders to share with them an honest view of Chugai's current state and the direction it intends to take in the future. I ask for your continued understanding and support.

1. Return on equity
2. Core: Core basis results are the results after adjusting non-Core items to IFRS basis results. Core basis results are used by Chugai as internal performance indicators for representing recurring profit trends both internally and externally, and as indices for establishing profit distributions such as returns to shareholders. EPS: Earnings per share
CAGR: Compound annual growth rate

independence based on our alliance with Roche, we must keep Roche's equity share within a certain range. Therefore, we cannot reduce shareholders' equity with share buybacks and treasury share cancellation as easily as some other companies can.

Therefore, improving margins is our main driver for improving ROE, and the best indicator of sustained growth in absolute terms from the viewpoint of shareholders is Core EPS CAGR.

3. The number of days from the purchase of raw materials to the collection of cash from the sale of finished products
4. Operating profit after tax and capital charge
5. Weighted average cost of capital

Engagement Agenda Item 1 Financial and Capital Strategy

Q. What are your views on financial targets?

Sustained growth in absolute return by improving margins is an important financial KPI in our business model.

ROE¹ is now being emphasized in Japan, and I get many questions about this metric from shareholders and investors. However, the financial target we have set in our mid-term business plan IBI 18 is Core EPS CAGR.² The reason for this is that we are aiming for sustained growth in absolute return over the medium and long term.

ROE is the product of the ratio of profit to revenues (the net profit margin), asset turnover and financial leverage. In Chugai's case, a large portion of our business is biopharmaceuticals, for which the manufacturing process is relatively lengthy, and we hold adequate safety stock to fulfill our duty of providing reliable supply. For these reasons, there are certain limitations on increasing turnover. In addition, to maintain our management

Q. Since you have no target for ROE, does that mean you are not conscious of the cost of capital?

The concepts of ROE and cost of capital are built into our internal management decision-making processes and mechanisms.

Companies obviously have a responsibility to efficiently use the capital provided by shareholders to achieve a level of profits higher than they expect. At Chugai, we also work diligently to optimize turnover by managing inventories and the cash conversion cycle (CCC),³ and to adjust shareholders' equity with a dividend policy that emphasizes balancing shareholder returns and investment for future growth.

In addition, we conduct management using OPAC,⁴ which is adjusted for cost of capital, and

draw up strategies in formulating mid-term business plans to clarify the gap with targets that consider the capital spread. In assessing the business feasibility of investments and development themes, the concept of the cost of capital is built into our internal management decision-making processes and mechanisms in ways such as discounting present value at the WACC.⁵ While we have only announced financial targets for Core EPS, we are by no means disregarding ROE and the cost of capital.

Engagement Agenda Item 2 Strategic Investments and Dividend Policy

Q. What is the current state of cash flow and how will Chugai use cash flow going forward?

We will use robust operating cash flow for strategic investments in facilities and in research and development to increase corporate value.

As of December 31, 2017, we held net cash of more than ¥240.0 billion. Cash inflow from operating activities is expected to increase as long as Core EPS continues to grow. Whenever we invest funds to bring new products to market or for in-house discovery and development, they are expensed on the income statement. However, most investments in future growth, such as in-licensing of technologies or development candidates, equity alliances, and capital expenditures, which require significant funding, are accounted for on the balance sheet. Chugai plans to invest aggressively in these areas.

For the time being, our main use of cash flow will be for investments in facilities and equipment. We are expecting to generate a steady stream of innovative projects through the use of our antibody engineering technologies and other means. To handle the simultaneous development of multiple projects and rapid product launches, we have been making investments for expansion of antibody API production capacity during the last few years. The new production facility (UK3) at the Ukima Plant is one example. It is expected to begin test production in 2018, with the start of full-scale commercial production planned for 2019.

Also coming up are major investments for expanding and enhancing our next-generation R&D infrastructure. We will complete the purchase of 170,000 m² of land for business use (Yokohama, Kanagawa Prefecture) at the end of 2018, and plan to commence construction of a new research laboratory there in 2019.

In addition, we will make strategic investments, such as in alliances with outside partners and in-licensing. Based on our agreement with Osaka University for comprehensive collaboration with IFRc related to immunology research, we will provide ¥10 billion over 10 years. Due to rapid advances in science and technology, we are on the threshold of an era in which disruptive innovation has the potential to dramatically alter industry structures built on former technologies and business models. We need to identify emerging trends, create opportunities for ourselves and draw up growth scenarios. The Science & Technology Intelligence Department was established in April 2017 as a specialized unit to handle such intelligence functions. It will actively look outward for acquisition of new technologies and partnerships with companies that possess innovative technologies, and will also seek opportunities for open innovation.

I will maintain an active dialogue with shareholders and investors so that they have a full understanding of Chugai's envisioned future and the state of its corporate activities, including non-financial aspects.

Toshiaki Itagaki

Executive Vice President & CFO
General Manager of Finance Supervisory Div., General Manager of IT Supervisory Div. and General Manager of Finance & Accounting Dept.



Q. What is your policy on returns to shareholders?

We will meet expectations by increasing corporate value through our business activities. For the time being, profits will be divided evenly between dividends and internal reserves.

First of all, we want to meet the expectations of shareholders by enhancing shareholder value. To accomplish that, we plan to continuously increase corporate value by creating groundbreaking drugs and innovative services. We will then return the resulting profits in the form of stable and steadily increasing dividends. Over the past several years, we have targeted a payout ratio of 50 percent of

Core EPS on average. As long as Core EPS continues to grow, we will be able to increase dividends, but we cannot neglect strategic investments for sustained growth. For the time being, we believe that we can fund investments with cash inflow from operating activities every year while maintaining net cash at the current level.

Engagement Agenda Item 3**Dialogue with Investors****Q. How do you plan to engage with investors and other stakeholders?**

I want to share values with stakeholders through dialogue so they can understand Chugai as it is.

If I were to describe Chugai with one word, that word would be “integrity.” It has several definitions in the dictionary, but in my view the essence of integrity is “an attitude of sincerely facing yourself, your organization and society as a whole, and honestly pushing for what you think is best.”

When I joined Chugai 35 years ago, I was taught that “pursuit of economic performance,” “pursuit of social awareness” and “pursuit of human development” were the Company’s principles of conduct. I learned that as a public entity, a company cannot survive if any of these elements is lacking, and that pursuit of social awareness and human development were especially important for Chugai, whose business is closely related to life. I also think that ESG, which has been gaining attention recently, means conducting management with integrity and respect for society and humanity.

In terms of pursuing the principles of conduct that have been passed down through the generations at Chugai, ESG represents the aspects that companies must never forget if they want to grow sustainably in co-existence with society. Accordingly, I want to give stakeholders a detailed view of our activities, including these non-financial aspects.

One of my key responsibilities as CFO is to gain stakeholders’ support by ensuring appropriate and timely disclosure of both qualitative and quantitative information to give them an understanding of Chugai as it is. I will not limit this to one-way communication. I will use dialogue to get a full understanding of stakeholder expectations, and reflect those expectations in the Company’s management. I look forward to hearing our stakeholders’ candid opinions and requests.

Status and Plans for Major Investments in Facilities and Research and Development

Planned Time Frame	Planned Investment	Site	Details
2012-2021	SGD 476 million	CPR (Singapore)	Accelerate creation of clinical candidates utilizing proprietary antibody technologies
2013-2015	¥2.9 billion	Ukima Plant	Doubling of manufacturing capacity for investigational biologics (Simultaneous development of multiple projects)
2013-2018	¥6.0 billion	Utsunomiya Plant	Enhancement of high-mix, low-volume production capability for pre-filled syringe form products (Installation of tray filler)
2015-2017	¥6.0 billion	Fujieda Plant	Strengthening of solid formulation manufacturing facility, etc. (Achievement of quick launch and steady supply)
2015-2018	¥37.2 billion	Ukima Plant	Enhancement of high-mix, low-volume production of antibody APIs for initial commercial products (Expansion of production capability with construction of UK3 facility)
2016-2018	¥43.4 billion	—	Purchase of business site in Totsuka Ward, Yokohama, Kanagawa Prefecture
2017-2027	¥10.0 billion	—	Comprehensive collaboration in research activities with IFRcC