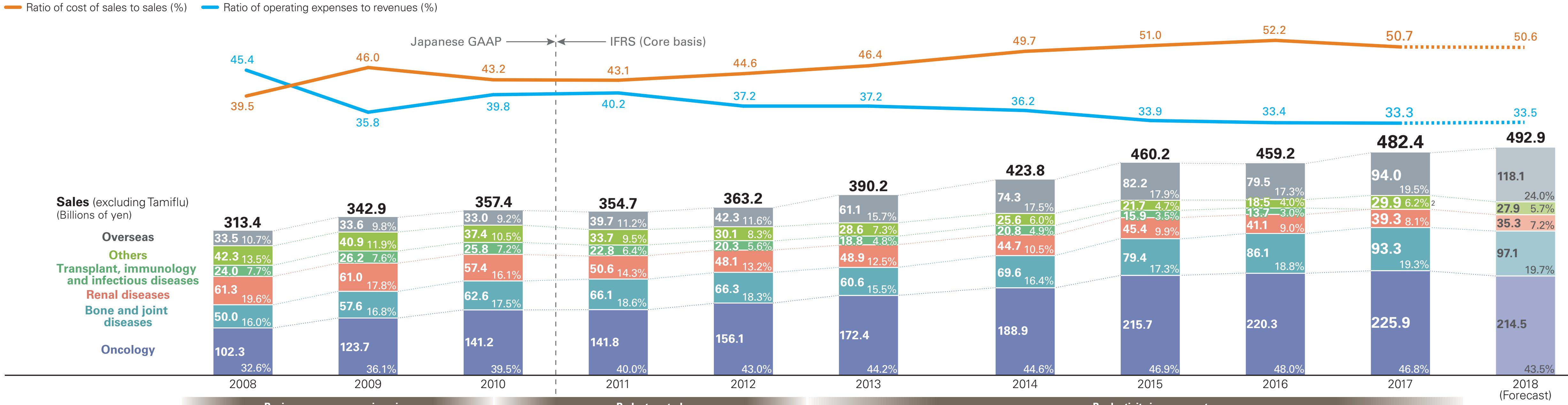
Financial and Non-Financial Highlights

Chugai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries/Years ended December 31

Financial Indicators (Core Basis)

Results



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 (Forecast)
Sales (excluding Tamiflu)	313.4	342.9	357.4	354.7	363.2	390.2	423.8	460.2	459.2	482.4	492.9
Overseas	33.5 10.7%	33.6 9.8%	33.0 9.2%	39.7 11.2%	42.3 11.6%	61.1 15.7%	74.3 17.5%	82.2 17.9%	79.5 17.3%	94.0 19.5%	118.1 24.0%
Others	42.3 13.5%	40.9 11.9%	37.4 10.5%	33.7 9.5%	30.1 8.3%	28.6 7.3%	25.6 6.0%	21.7 4.7%	18.5 4.0%	29.9 6.2%[2]	27.9 5.7%
Transplant, immunology and infectious diseases	24.0 7.7%	26.2 7.6%	25.8 7.2%	22.8 6.4%	20.3 5.6%	18.8 4.8%	20.8 4.9%	15.9 3.5%	13.7 3.0%		
Renal diseases	61.3 19.6%	61.0 17.8%	57.4 16.1%	50.6 14.3%	48.1 13.2%	48.9 12.5%	44.7 10.5%	45.4 9.9%	41.1 9.0%	39.3 8.1%	35.3 7.2%
Bone and joint diseases	50.0 16.0%	57.6 16.8%	62.6 17.5%	66.1 18.6%	66.3 18.3%	60.6 15.5%	69.6 16.4%	79.4 17.3%	86.1 18.8%	93.3 19.3%	97.1 19.7%
Oncology	102.3 32.6%	123.7 36.1%	141.2 39.5%	141.8 40.0%	156.1 43.0%	172.4 44.2%	188.9 44.6%	215.7 46.9%	220.3 48.0%	225.9 46.8%	214.5 43.5%

Chugai has substantially improved its cost structure in view of the rising cost of sales to sales ratio resulting from the increase in products in-licensed from Roche under the strategic alliance between the two companies. We have now secured high profitability by continuously achieving a ratio of operating expenses to revenues at a level that compares favorably with the world's leading pharmaceutical companies.

Sales have grown steadily in the area of oncology based on products in-licensed from Roche as well as Alecensa, a product from Chugai's research. Sales also continue to grow in the area of bone and joint diseases, driven by Chugai products Edirol and Actemra, the first therapeutic antibody created in Japan.

2. Sales of the transplant, immunology and infectious diseases area, which were disclosed separately up until 2016, were included and disclosed in sales of the Others area from 2017.

Launch of main products in Japan

- 2008: Actemra (rheumatoid arthritis) (Chugai product)
- 2011: Edirol (Chugai product); Mircera
- 2013: Perjeta; Actemra (subcutaneous injection) (Chugai product); Bonviva
- 2014: Kadcyla; Alecensa (Chugai product)
- 2015: Zelboraf
- 2017: Alaglio

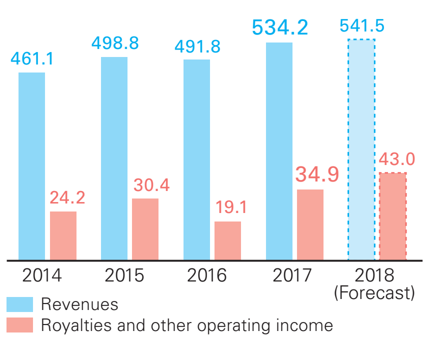
Approval of main products overseas

- 2009: Actemra (rheumatoid arthritis, E.U.) (Chugai product)
- 2010: Actemra (rheumatoid arthritis, U.S.) (Chugai product)
- 2013: Actemra (subcutaneous injection, U.S.) (Chugai product)
- 2014: Actemra (subcutaneous injection, E.U.) (Chugai product)
- 2015: Alecensa (U.S.) (Chugai product)
- 2017: Hemlibra (U.S., E.U.) (Chugai product); Alecensa (E.U.) (Chugai product)

Chugai product

Revenues/ Royalties and Other Operating Income

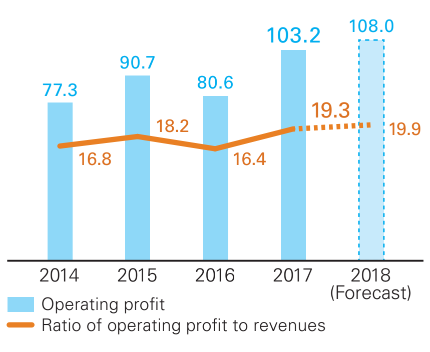
(Billions of yen)



Revenues continue to expand, led by increases in exports of Chugai products and in royalties and other operating income (ROOI). ROOI is composed of recurring income, which has been increasing in conjunction with overseas sales of Actemra, and non-recurring income, which changes from year to year and is the principal factor in the fluctuations in ROOI.

Operating Profit/ Ratio of Operating Profit to Revenues

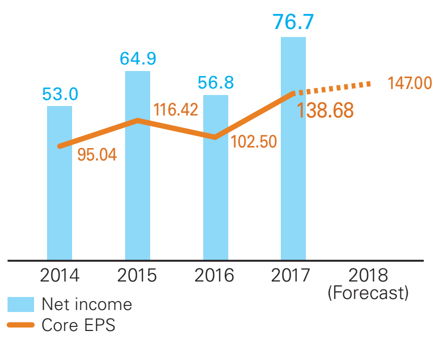
(Billions of yen/%)



Chugai's ratio of operating profit to revenues is consistently high due to the low ratio of operating expenses to revenues. In 2017, the increase in ROOI and the higher percentage of Chugai products in the sales mix resulted in a lower ratio of cost of sales to sales, which contributed to the increase in the ratio of operating profit to revenues. In 2018, we expect record profit for a second consecutive year due to growth of mainstay products and ROOI.

Net Income/Core EPS

(Billions of yen/Yen)

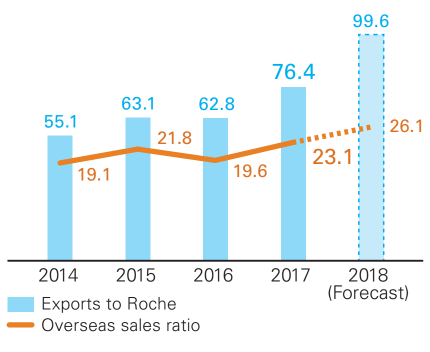


In mid-term business plan IBI 18, we set a Core EPS compound annual growth rate (CAGR) of less than 4 percent as the quantitative outlook, with 2015 as the baseline, and are using it as a key performance indicator shared both internally and externally. In the forecast for 2018, we project that this indicator will be 9.5 percent,[1] significantly higher than our original plan.

1. Based on average exchange rates for 2015

Exports to Roche/Overseas Sales Ratio

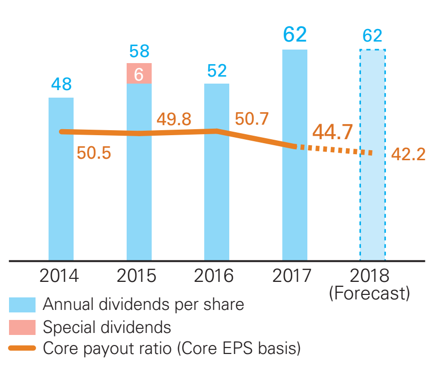
(Billions of yen/%)



Chugai product Actemra has grown into a mainstay product of the Roche Group, with global sales (including Japan) surpassing 1.9 billion Swiss francs in 2017. Alecensa, another product from Chugai research, received approval in Europe and the United States for the additional indication of first-line treatment at the end of 2017, and is expected to drive overseas sales.

Dividends per Share/Core Payout Ratio

(Yen/%)



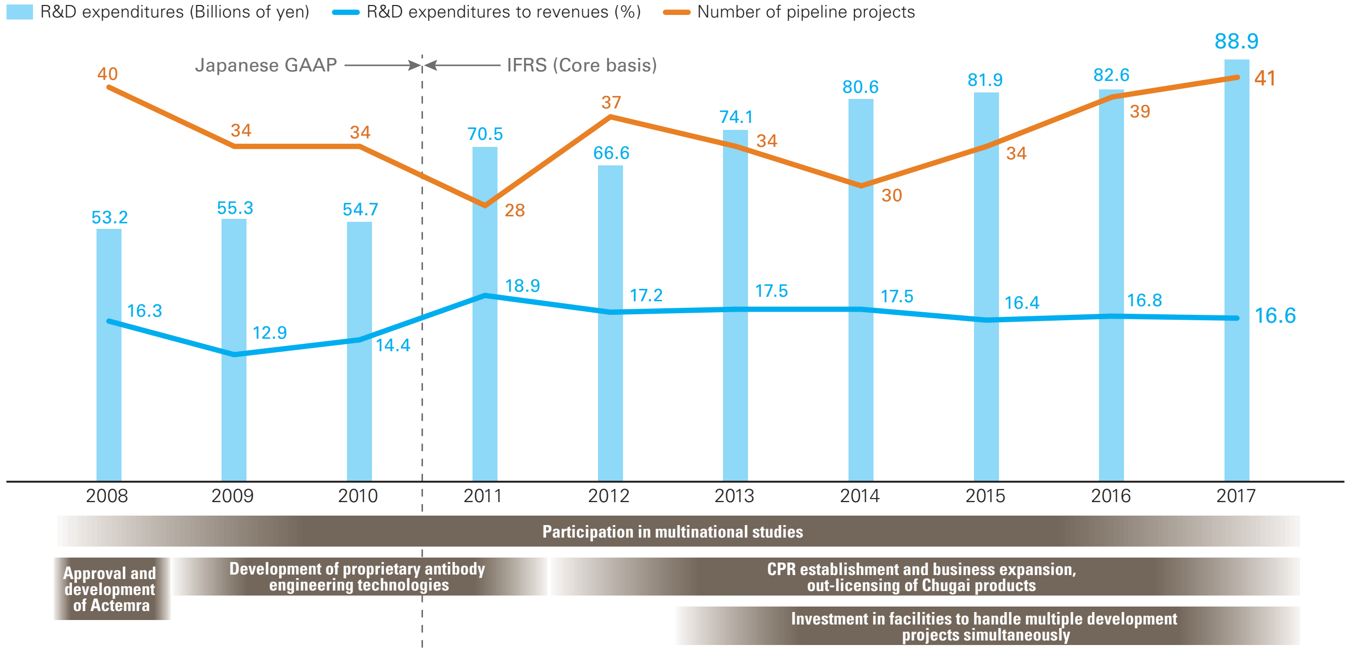
Regarding shareholder returns, we target stable dividends with a Core EPS payout ratio of 50 percent on average, based on an approach of dividing core net income equally between the Company and our shareholders. This policy will continue unchanged under IBI 18, our current mid-term business plan.

About Core Basis Results

Chugai reports its results on a Core basis from 2013 in conjunction with its decision to adopt IFRS. Core basis results are the IFRS basis results adjusted by excluding non-Core items, and are consistent with the concept of Core basis results disclosed by Roche. 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. No items have been excluded from the IFRS balance sheet and cash flows, as the Core basis results concept only applies to the income statement.

Research, Clinical Development and Production

R&D Expenditures/R&D Expenditures to Revenues/Pipeline Projects

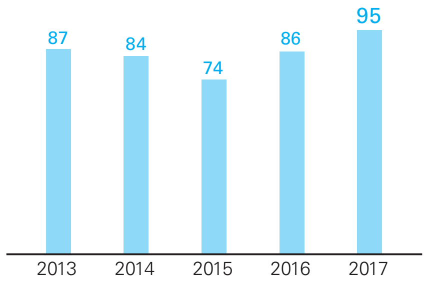


As revenues grow, Chugai increases investment in research and development. In addition to the steady creation of innovative drugs, this leads to research findings that may contribute to the advancement of healthcare and the pharmaceutical industry worldwide. Our policy is to proactively conduct speedy research and development in light of the competitive environment, as well as upfront investment to acquire and enhance future competitiveness, while keeping growth in overall operating expenses within the rate of revenue growth as a general principle.

Under our strategic alliance with Roche, we have been promoting new drug development with higher success rates and greater efficiency by collaborating with Roche in ways such as examining and deciding on which Roche products to in-license based on the results of early-stage clinical trials. In recent years, we have maintained a robust pipeline, with numerous products from Chugai research having moved into the clinical phase, including in-house products from Chugai Pharmabody Research (CPR),[1] which has expanded its operations to accelerate the creation of innovative therapeutic antibodies.

1. Established in Singapore in 2012

Publications in Academic Papers and Presentations at Scientific Conferences regarding Chugai Research Findings[2]

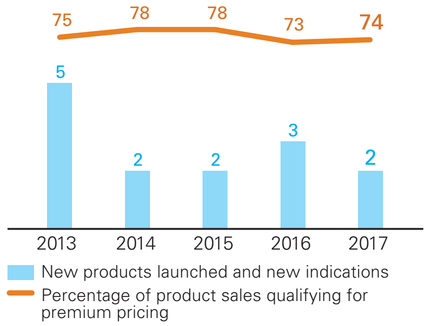


Chugai develops innovative medicines that allow it to differentiate itself from competitors by continuously establishing proprietary drug discovery technologies and applying them to development candidates while promoting research on commercialization for high quality and high added value. We will continue to generate research findings that may contribute to the overall advancement of healthcare, presenting those findings at scientific conferences and publishing them in academic papers.

2. Total of drug discovery and pharmaceutical technology

New Products Launched and New Indications/Percentage of Product Sales Qualifying for Premium Pricing

(Number/%)

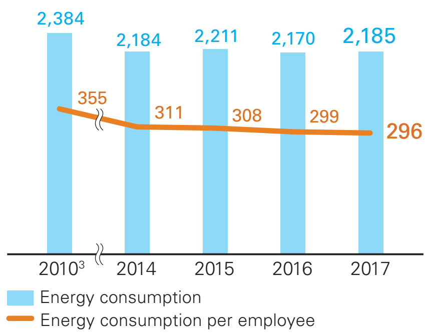


Products that qualify for premium pricing account for a consistently high proportion of Chugai's sales. With our stable revenue base from the efficient in-licensing of Roche products for the Japanese market, we will continue to concentrate on the creation of innovative medicines to provide new value to patients.

Note: Products subject to special market-expansion repricing (2013: Actemra, Avastin; 2016, 2017: Avastin) are counted as products qualifying for premium pricing because they were assumed to meet the conditions for such pricing in the relevant fiscal years.

Energy Consumption/ Energy Consumption per Employee

(Thousands of GJ/GJ per employee)

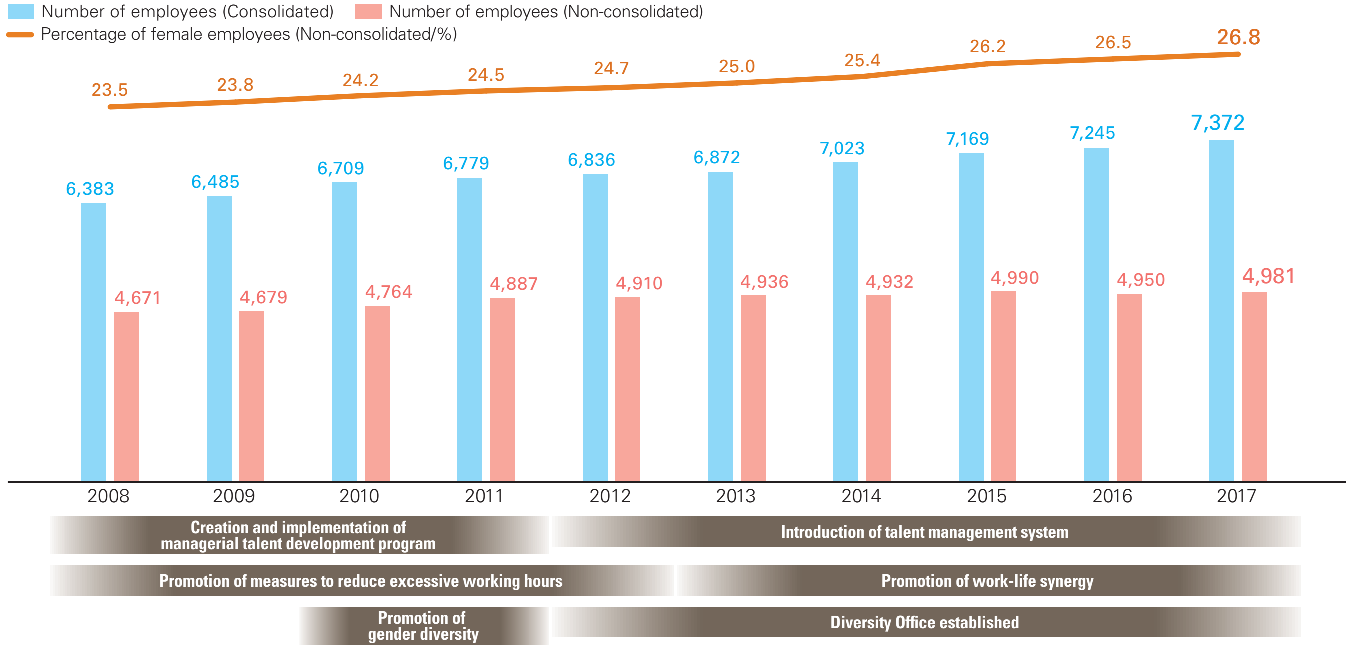


As it expands its production system for new drugs by introducing facilities, Chugai is also working to reduce energy consumption as one of its tasks based on its core value, "We care about the global environment." (See "Environmental, Health and Safety Data" on pages 76-77 for details.)

3. Benchmark year for mid-term environmental goals

Human Resource Management

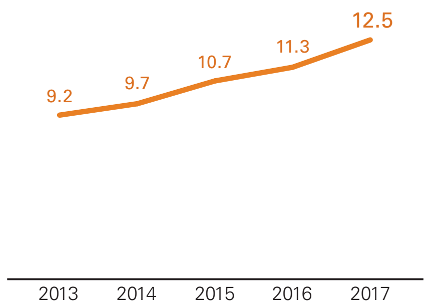
Employees/Percentage of Female Employees



Chugai is working to enhance its management of human resources based on the belief that its people are the source of its contribution to patients in terms of providing greater value. We have implemented a talent management system to develop and retain leaders and core personnel, and also promote diversity and inclusion and work-life synergy so our diverse human resources can generate new value. The percentage of female employees is rising, and women have been steadily making inroads not only in our personnel systems but also in our organizational culture.

Percentage of Female Managers

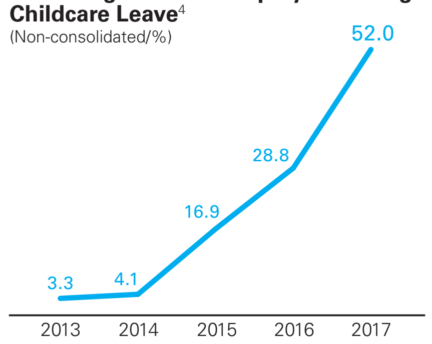
(Non-consolidated/%)



The percentage of female managers is increasing year by year. We have set a target of 13 percent for 2018, and are focusing on programs such as management candidate training to support the career development and professional growth of women. We are aware that there is still room for improvement compared with global levels and plan to further accelerate our initiatives to develop female leaders.

Percentage of Male Employees Taking Childcare Leave[4]

(Non-consolidated/%)

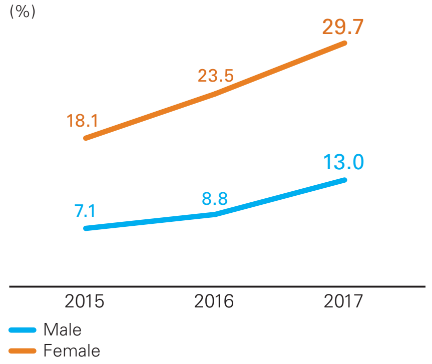


Chugai implements various measures to promote work-life synergy so that employees can choose work arrangements that fit their lifestyles. The number of male employees taking childcare leave is increasing. In addition to sending e-mails about taking childcare leave to men with newborn children and their supervisors, we have created a handbook for supervisors that contains examples of employees taking leave and guidance on key management points.

4. Number of male employees taking childcare leave as a percentage of all male employees with newborn children

Percentage of Employees Using the Telecommuting System[5]

(%)



Since introducing the telecommuting system in 2012 for employees caring for young children and other family members, and for late-night teleconferencing with people overseas, we expanded the conditions for use of the system in 2015 to include productivity improvement, temporary injury and regular outpatient treatment. The number of users is on the rise. We will continue our efforts to raise awareness about the use of this system to promote diverse work styles.

5. Percentage of eligible employees

10-Year Financial Summary

Chugai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries/Years ended December 31

(Billions of yen)

International Financial Reporting Standards (IFRS)	2017		2016		2015		2014		2013		2012	
	IFRS	Core[1]	IFRS	Core[1]	IFRS	Core[1]	IFRS	Core[1]	IFRS	Core[1]	IFRS	Core[1]
Results												
Revenues[2]	534.2		491.8		498.8		461.1		423.7		386.6	
Sales	499.3		472.7		468.4		436.9		401.3		375.2	
Royalties and other operating income	34.9		19.1		30.4		24.2		22.4		11.3	
Cost of sales	(254.2)	(252.9)	(247.9)	(246.7)	(240.2)	(238.9)	(218.1)	(217.0)	(187.0)	(186.1)	(168.2)	(167.3)
Operating expenses	(181.1)	(178.1)	(167.0)	(164.5)	(171.8)	(169.3)	(167.2)	(166.8)	(157.9)	(157.7)	(143.7)	(143.7)
Marketing and distribution	(72.8)	(72.8)	(69.8)	(69.8)	(74.8)	(74.7)	(71.7)	(71.7)	(71.6)	(71.5)	(67.9)	(67.9)
Research and development	(92.9)	(88.9)	(85.0)	(82.6)	(83.8)	(81.9)	(80.8)	(80.6)	(74.3)	(74.1)	(66.6)	(66.6)
General and administration	(15.3)	(16.3)	(12.2)	(12.1)	(13.2)	(12.8)	(14.6)	(14.6)	(12.1)	(12.1)	(9.2)	(9.2)
Operating profit	98.9	103.2	76.9	80.6	86.8	90.7	75.9	77.3	78.7	79.9	74.7	75.6
Profit before taxes	97.0	101.3	74.4	78.1	87.3	91.2	76.2	77.6	76.9	78.1	72.7	73.6
Net income	73.5	76.7	54.4	56.8	62.4	64.9	52.1	53.0	51.9	52.6	46.8	47.4
Attributable to Chugai shareholders	72.7	75.9	53.6	56.1	61.1	63.7	51.0	51.9	50.9	51.6	46.1	46.6
Core EPS (Yen)	—	138.68	—	102.50	—	116.42	—	95.04	—	94.69	—	85.64
Cash dividends per share (Yen)	62		52		58		48		45		40	
Core payout ratio	—	44.7%	—	50.7%	—	49.8%	—	50.5%	—	47.5%	—	46.7%
Financial Position												
Net operating assets	440.2		431.1		380.4		357.7		325.2		307.9	
Total assets	852.5		806.3		787.4		739.5		697.2		645.3	
Total liabilities	(159.6)		(159.8)		(160.1)		(141.8)		(124.0)		(116.2)	
Total net assets	6,92.9		646.5		627.3		597.8		573.2		529.2	
Investments in property, plant and equipment	34.3		19.4		28.7		16.3		13.0		14.2	
Depreciation	14.5		14.8		14.0		13.7		13.5		13.3	
Main Indicators												
Ratio of cost of sales to sales	50.9%	50.7%	52.4%	52.2%	51.3%	51.0%	49.9%	49.7%	46.6%	46.4%	44.8%	44.6%
Ratio of operating profit to revenues	18.5%	19.3%	15.6%	16.4%	17.4%	18.2%	16.5%	16.8%	18.6%	18.9%	19.3%	19.6%
Ratio of research and development expenditures to revenues	17.4%	16.6%	17.3%	16.8%	16.8%	16.4%	17.5%	17.5%	17.5%	17.5%	17.2%	17.2%
Ratio of net income to equity attributable to Chugai shareholders (ROE)[3]	10.9%	—	8.4%	—	10.0%	—	8.7%	—	9.3%	—	9.0%	—
Ratio of profit before taxes to total assets (ROA)[4]	11.7%	—	9.3%	—	11.4%	—	10.6%	—	11.5%	—	11.8%	—
Equity per share attributable to Chugai shareholders (BPS) (Yen)	1,265.46	—	1,181.67	—	1,146.17	—	1,092.90	—	1,049.47	—	970.08	—
Ratio of equity attributable to Chugai shareholders	81.2%	—	80.1%	—	79.5%	—	80.6%	—	82.0%	—	81.8%	—
Number of employees	7,372		7,245		7,169		7,023		6,872		6,836	

1. 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.
2. Revenues do not include consumption tax.
3. Ratio of net income to equity attributable to Chugai shareholders (ROE) = Net income attributable to Chugai shareholders / Capital and reserves attributable to Chugai shareholders (average of beginning and end of fiscal year)
4. Ratio of profit before taxes to total assets (ROA) = Profit before taxes / Total assets (average of beginning and end of fiscal year)

(Billions of yen)

Japanese GAAP	2012	2011	2010	2009	2008
Results					
Revenues[1]	391.2	373.5	379.5	428.9	326.9
Sales	375.2	363.6	375.6	419.1	321.8
Other operating revenues	16.0	9.9	3.9	9.8	5.1
Cost of sales	167.7	157.5	162.4	192.9	127.0
Selling, general and administrative expenses	147.1	153.6	150.9	153.5	148.3
Marketing and distribution expenses	92.0	97.7	96.2	98.2	95.1
Research and development expenditures	55.1	55.9	54.7	55.3	53.2
Operating income	76.4	62.4	66.2	82.6	51.6
Net income (loss)	48.2	35.2	41.4	56.6	39.3
Net income per share (basic) (Yen)	88.58	64.75	76.14	104.00	72.07
Net income per share (diluted) (Yen)	88.54	64.72	76.12	103.98	72.04
Cash dividends per share (Yen)[2]	40	40	40	40	34
Payout ratio	45.2%	61.8%	52.5%	38.5%	47.2%
Financial Position					
Total assets	587.7	533.5	508.0	540.5	478.5
Total net assets[3]	490.1	459.1	449.4	434.7	397.1
Capital investments	14.2	11.9	12.7	14.6	26.6
Depreciation and amortization	15.3	15.9	18.0	19.5	20.1
Main Indicators					
Ratio of cost of sales to revenues	44.7%	43.3%	43.2%	46.0%	39.5%
Ratio of operating income to revenues	19.5%	16.7%	17.4%	19.3%	15.8%
Ratio of research and development expenditures to revenues	14.1%	15.0%	14.4%	12.9%	16.3%
Return on equity[4]	10.2%	7.8%	9.4%	13.7%	10.1%
Return on assets[5]	8.6%	6.8%	7.9%	11.1%	8.4%
Net assets per share (Yen)	896.02	839.50	821.87	794.51	725.18
Shareholders' equity to total assets	83.0%	85.6%	88.0%	80.0%	82.6%
Number of employees	6,836	6,779	6,709	6,485	6,383

1. Revenues do not include consumption tax.
2. Cash dividends per share for 2009 include a special year-end dividend of ¥6 per share.
3. Net assets include minority interests.
4. Return on equity = Net income / Shareholders' equity (average of beginning and end of fiscal year)
5. Return on assets = Net income / Total assets (average of beginning and end of fiscal year)

Management's Discussion and Analysis

Management Policies

Based on its strategic alliance with Roche, Chugai's mission is 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. Our primary management goal is to become a top pharmaceutical company capable of continuously delivering innovative drugs in Japan and internationally as a leading member of the Roche Group. We have been working to fulfill this mission and achieve our goal by leveraging our close relationship with Roche and building systems capable of efficiently and continuously developing and marketing new drugs. We have also innovated by refining our strengths to attain leading-edge drug discovery technology and maintain the top share of the domestic oncology area.

Under our previous mid-term business plan, ACCEL 15, we generated top-class growth in Japan underpinned by several innovative new drugs and expanded our leading share of the domestic oncology market. However, in mid-term business plan IBI 18, Chugai is aiming to transform into a company that continues to make progress globally through its competitive advantages that leverage its strategic alliance with Roche. The quantitative outlook through the final year of the plan is a compound annual growth rate for Core EPS in the low single digits (less than 4 percent) based on average exchange rates for 2015. Chugai aims for a consolidated dividend payout ratio that averages 50 percent of Core EPS to provide a stable allocation of profit to all shareholders.

Overview of Results

Revenues

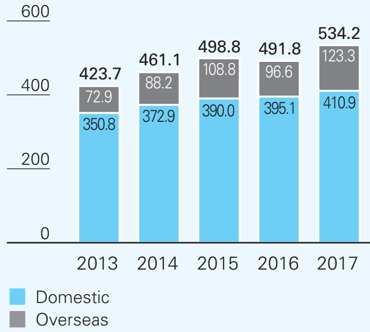
(Billions of yen)

	2015	2016	2017	2016/2017 Change
Revenues	498.8	491.8	534.2	+8.6%
Sales	468.4	472.7	499.3	+5.6%
Royalties and other operating income	30.4	19.1	34.9	+82.7%

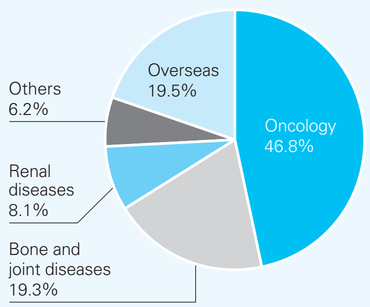
- In 2017, in addition to the sales growth of core products in Japan, which more than offset the impact of the NHI drug price revisions, and an increase in exports of Alecensa to Roche, royalties and other operating income also increased. As a result, revenues exceeded the level of the previous year.
- Royalties and other operating income increased year on year due to factors including steady revenue from Actemra, as well as an increase in one-time milestone income.

Revenues

(Billions of yen)



Percentage of Total Sales (Excluding Tamiflu)
(2017)



Domestic Sales by Area

(Billions of yen)

	2015	2016	2017	2016/2017 Change
Domestic sales (excluding Tamiflu)	378.0	379.7	388.4	+2.3%
Oncology	215.7	220.3	225.9	+2.5%
Bone and joint diseases	79.4	86.1	93.3	+8.4%
Renal diseases	45.4	41.1	39.3	-4.4%
Others	37.6	32.2	29.9	-7.1%
Tamiflu sales	8.2	13.5	16.9	+25.2%
Ordinary sales	8.2	12.0	11.9	-0.8%
Sales for government stockpiles	0.0	1.5	5.0	+233.3%

Note: Sales of the transplant, immunology and infectious diseases area, which were disclosed separately up until 2016, were disclosed in Others from 2017. Figures for 2015 and 2016 have been restated accordingly.

- Domestic sales (excluding Tamiflu) increased year on year, led by firm sales of mainstay products in the areas of oncology and bone and joint diseases, although the NHI drug price revisions in the previous year had an impact on sales in the first quarter.
- During 2017, we maintained our number-one share of the domestic oncology market (20.2 percent),* as sales of major products such as Alecensa, which has continued strong growth since its launch in 2014, and Rituxan increased steadily.
- In the bone and joint diseases area, Edirol, which has become a top brand in the domestic market for oral therapeutic agents for osteoporosis, drove solid growth, along with other major products including Actemra and Bonviva.

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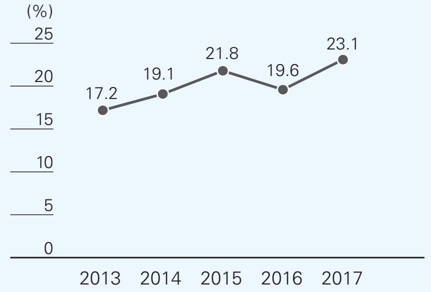
Overseas Sales

(Billions of yen)

	2015	2016	2017	2016/2017 Change
Overseas sales	82.2	79.5	94.0	+18.2%
Actemra (exports to Roche)	62.6	59.1	59.4	+0.5%
Alecensa (exports to Roche)	0.5	3.7	13.9	+275.7%

- Overseas sales increased year on year in 2017. Contributing factors included increased exports of Alecensa to Roche, reflecting strong sales in Europe and the United States. However, sales of Actemra increased only slightly because the increase in sales volume was offset by the negative effect of exchange rates.

Overseas Sales Ratio



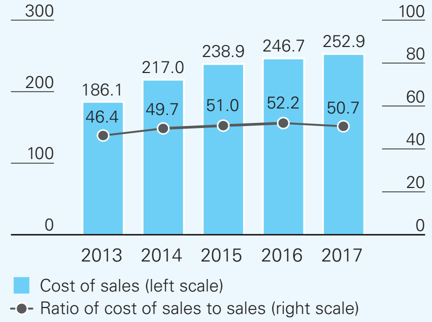
Cost of Sales (Core basis)

(Billions of yen)

	2015	2016	2017	2016/2017 Change
Cost of sales	(238.9)	(246.7)	(252.9)	+2.5%
Ratio of cost of sales to sales	51.0%	52.2%	50.7%	-1.5% pts

- The ratio of cost of sales to sales decreased year on year in 2017, mainly because Chugai products, which have a lower cost-to-sales ratio than products in-licensed from Roche, accounted for a higher percentage of the sales mix.

Cost of Sales/Ratio of Cost of Sales to Sales



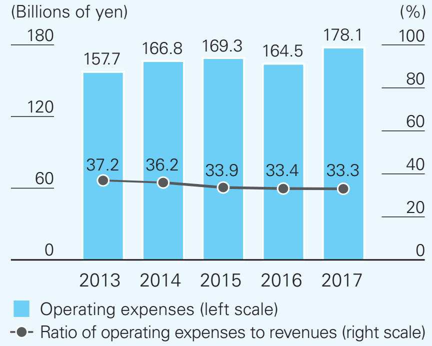
Operating Expenses (Marketing and Distribution Expenses, R&D Expenditures and General and Administration Expenses) (Core Basis)

(Billions of yen)

	2015	2016	2017	2016/2017 Change
Total operating expenses	(169.3)	(164.5)	(178.1)	+8.3%
Marketing and distribution expenses	(74.7)	(69.8)	(72.8)	+4.3%
R&D expenditures	(81.9)	(82.6)	(88.9)	+7.6%
General and administration expenses	(12.8)	(12.1)	(16.3)	+34.7%

- Marketing and distribution expenses increased year on year in 2017 because of an increase in promotional activities and other factors.
- R&D expenditures increased year on year due to factors including increased R&D activities and changes in classification of expenses due to organizational changes.
- General and administration expenses increased year on year due to an increase in expenses including corporate taxes (pro forma standard taxation).

Operating Expenses/ Ratio of Operating Expenses to Revenues



Operating Profit and Net Income (Core Basis)

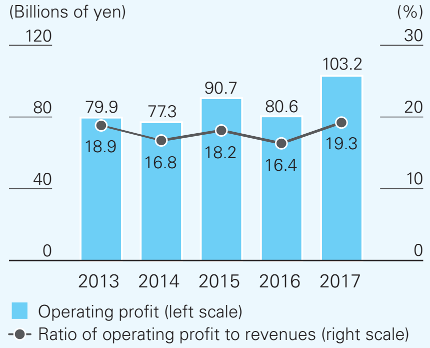
(Billions of yen)

	2015	2016	2017	2016/2017 Change
Operating profit	90.7	80.6	103.2	+28.0%
Ratio of operating profit to revenues	18.2%	16.4%	19.3%	+2.9% pts
Net income	64.9	56.8	76.7	+35.0%
Net income attributable to Chugai shareholders	63.7	56.1	75.9	+35.3%

- Operating profit increased year on year in 2017 because royalties and other operating income increased and cost of sales decreased due to the higher percentage of Chugai products in the sales mix, causing the ratio of operating profit to revenues to increase as well.
- Net income in 2017 increased year on year because the tax rate decreased due to changes in the taxation system.

Note: Chugai filed an Advance Pricing Arrangement covering certain transactions with F. Hoffmann-La Roche Ltd. with Japanese and Swiss tax authorities, but received a notice of agreement in the first quarter of 2017 indicating that the arrangement will decrease taxable income by a certain amount for Chugai and increase it by an equivalent amount for Roche in the fiscal years from 2016 to 2020, and that an additional adjustment will be made in 2021 if necessary. As a result of this agreement, Chugai will transfer a part of the reduction in corporate tax, etc. to Roche in the amount of the estimated tax payable for Roche, in accordance with the license agreement between Chugai and Roche, and recognized a ¥1,760 million adjustment from transfer pricing taxation, including the reduction associated with the estimated amount recorded in the previous year.

Operating Profit/ Ratio of Operating Profit to Revenues

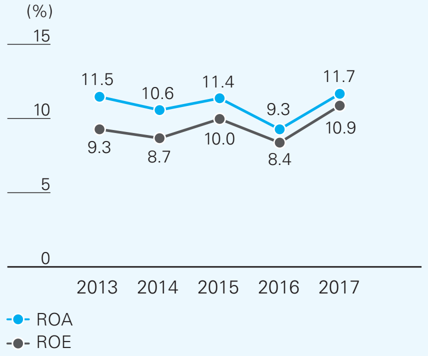


Profitability Indicators (Consolidated)

	2015	2016	2017	2016/2017 Change
Gross profit to revenues (%) (Core)	52.1	49.8	52.7	+2.9% pts
Operating profit to revenues (%) (Core)	18.2	16.4	19.3	+2.9% pts
Ratio of profit before taxes to total assets (ROA[1]) (%) (IFRS)	11.4	9.3	11.7	+2.4% pts
Ratio of net income attributable to Chugai shareholders (ROE[2]) (%) (IFRS)	10.0	8.4	10.9	+2.5% pts

1. ROA = Profit before taxes / Total assets (average of beginning and end of fiscal year)
2. ROE = Net income attributable to Chugai shareholders / Capital and reserves attributable to Chugai shareholders (average of beginning and end of fiscal year)

ROA/ROE



Financial Position

Assets, Liabilities and Net Assets

In conjunction with its decision to apply IFRS from 2013, Chugai has reorganized the consolidated balance sheets and discloses assets and liabilities including net operating assets for use as internal performance indicators (Roche discloses the same indicators). No items have been excluded from the IFRS balance sheet, as the Core basis results concept only applies to the income statement.

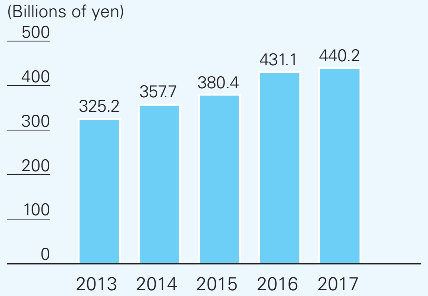
(Billions of yen)

Net Operating Assets (NOA)

	2015	2016	2017	2016/2017 Change
Net working capital	214.6	258.5	250.7	-3.0%
Long-term net operating assets	165.8	172.7	189.5	+9.7%
Net operating assets (NOA)	380.4	431.1	440.2	+2.1%

- Net working capital at December 31, 2017 decreased from a year earlier partly because of the absence of the effect of inventories, which increased in the previous year as Chugai prepared for expansion of global demand.
- Long-term net operating assets increased from a year earlier because of an increase in investments in property, plant and equipment, including the antibody API manufacturing facility UK3 for handling high-mix, low-volume production.
- As a result, net operating assets (NOA) increased from a year earlier due to factors including investments for the future.

Net Operating Assets



Net operating assets are the total of net working capital and long-term net operating assets. Net working capital is composed of accounts receivable, inventories, accounts payable and other payables and receivables. Long-term net operating assets are composed of property, plant and equipment, intangible assets, and other items.

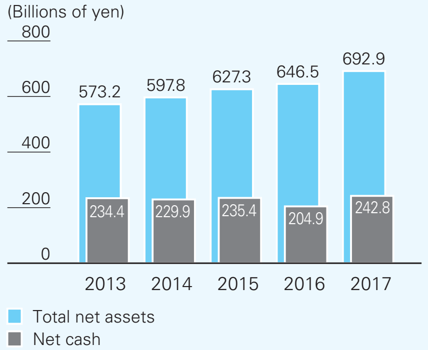
Total Net Assets

(Billions of yen)

	2015	2016	2017	2016/2017 Change
Net operating assets (NOA)	380.4	431.1	440.2	+2.1%
Net cash	235.4	204.9	242.8	+18.5%
Other non-operating assets – net	11.5	10.5	9.9	-5.7%
Total net assets	627.3	646.5	692.9	+7.2%

- Total net assets at December 31, 2017 increased from a year earlier due to factors including construction of the antibody API manufacturing facility UK3 for handling high-mix, low-volume production.
- Despite aggressive investments for future growth, net cash has stayed above ¥200.0 billion for the past five years as Chugai's ability to generate cash has remained high.

Total Net Assets/Net Cash



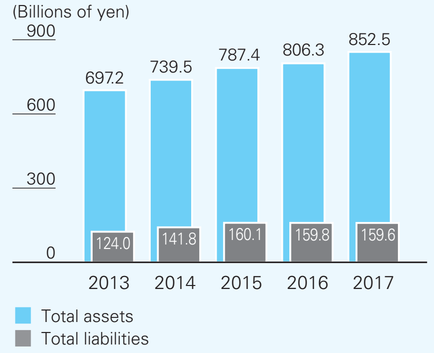
Total Assets and Total Liabilities

(Billions of yen)

	2015	2016	2017	2016/2017 Change
Total assets	787.4	806.3	852.5	+5.7%
Total liabilities	(160.1)	(159.8)	(159.6)	-0.1%

- Looking at the components of total assets, total liabilities and total net assets, total liabilities at December 31, 2017 did not change significantly from a year earlier, and total assets and total net assets increased from a year earlier.

Total Assets/Total Liabilities

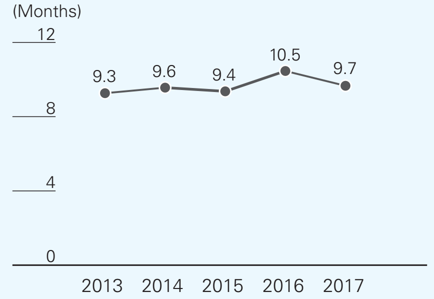


Financial Position Indicators

	2015	2016	2017	2016/2017 Change
Ratio of equity attributable to Chugai shareholders (%)	79.5	80.1	81.2	+1.1% pts
Core return on net operating assets (%)	17.1	13.2	17.4	+4.2% pts
Cash conversion cycle (months)	9.4	10.5	9.7	-0.8 months
Net cash turnover period (months)	5.7	5.0	5.5	+0.5 months
Current ratio (%)	426.7	468.0	487.5	+19.5% pts
Debt-to-equity ratio (%)	0.1	0.1	0.0	-0.1% pts

Notes: 1. Ratio of equity attributable to Chugai shareholders = Capital and reserves attributable to Chugai shareholders (fiscal year-end) / Total assets (fiscal year-end)
2. Core return on net operating assets = Core net income / Net operating assets
3. Cash conversion cycle = [Trade accounts receivable / Sales + (Inventories – Trade accounts payable) / Cost of sales] x Months passed
4. Net cash turnover period = Net cash / Revenues x Months passed
5. Current ratio = Current assets (fiscal year-end) / Current liabilities (fiscal year-end)
6. Debt-to-equity ratio = Interest-bearing debt (fiscal year-end) / Capital and reserves attributable to Chugai shareholders (fiscal year-end)

Cash Conversion Cycle



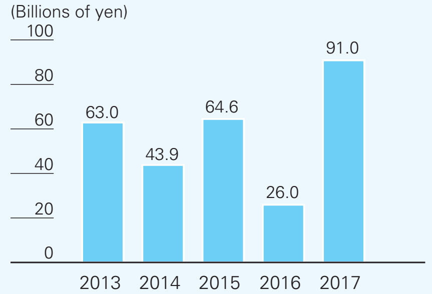
Cash Flows

In conjunction with its decision to apply IFRS from 2013, Chugai has reorganized the consolidated statements of cash flows and uses free cash flows as internal performance indicators (Roche discloses the same indicators). No items have been excluded from cash flows, as the Core basis results concept only applies to the income statement.

(Billions of yen)

	2015	2016	2017	2016/2017 Change
Movement of Free Cash Flows				
Operating profit	86.8	76.9	98.9	+28.6%
Operating profit, net of operating cash adjustment	105.4	98.5	121.0	+22.8%
Operating free cash flow	64.6	26.0	91.0	+250.0%
Free cash flow	37.0	4.3	64.7	+1,405%
Net increase in net cash	5.5	(30.5)	37.9	—
Consolidated Statement of Cash Flows				
Cash flows from operating activities	62.9	38.8	107.6	+177.3%
Cash flows from investing activities	(45.3)	(10.1)	(36.7)	+263.4%
Cash flows from financing activities	(28.5)	(33.4)	(29.6)	-11.4%
Net increase in cash and cash equivalents	(12.3)	(6.3)	43.7	—
Cash and cash equivalents at end of year	101.7	95.4	139.1	+45.8%

Operating Free Cash Flow



Operating free cash flow

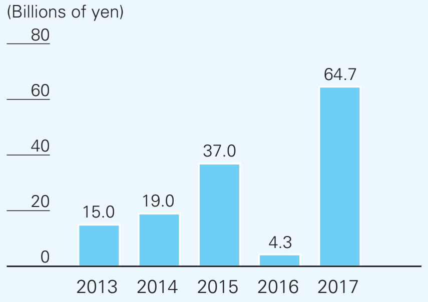
- Operating profit, net of operating cash adjustment, totaled ¥121.0 billion after adjustment for items including ¥14.5 billion for depreciation of property, plant and equipment.
- Operating free cash flow, which is calculated by subtracting the increase in net working capital of ¥14.5 billion and expenditures of ¥44.5 billion for the purchase of property, plant and equipment and intangible assets from operating profit, net of operating cash adjustments, amounted to ¥91.0 billion (¥26.0 billion for 2016). Purchases of property, plant and equipment were mainly investments in research and plant equipment.

Free cash flow (FCF)

- Free cash flow, which is calculated by subtracting the total of ¥26.2 billion of non-operating cash outflows from financial asset management, settlement for transfer pricing taxation and income taxes paid from operating free cash flow, was ¥64.7 billion (¥4.3 billion for 2016).
- Net cash as of December 31, 2017, after dividends paid and foreign currency translation adjustments, increased ¥37.9 billion compared with the end of the previous fiscal year to ¥242.8 billion.

Note: Chugai formerly stated free cash flow net of dividends paid, but began stating free cash flow before dividends paid from the second quarter of 2016. Chugai changed its presentation of free cash flow to a generally accepted calculation that conforms to the change in the way that Roche defines free cash flow. Free cash flow from 2014 has been restated accordingly. The change has had no effect on operating free cash flow.

Free Cash Flow

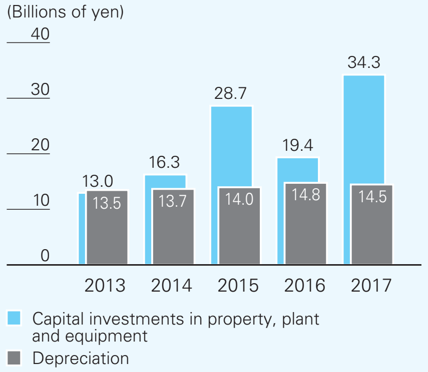


Capital Investments

	2015	2016	2017	(Billions of yen) 2016/2017 Change
Investments in property, plant and equipment	28.7	19.4	34.3	+76.8%
Depreciation	14.0	14.8	14.5	-2.0%

- The increase in capital investments in 2017 was largely the result of expenditures to acquire research and plant equipment.
- Chugai plans to make capital investments of ¥79.0 billion during 2018 consisting primarily of new investment in the main facilities below, and expects depreciation to total ¥14.5 billion.

Capital Investments in Property, Plant and Equipment/Depreciation



Major Capital Investments Planned

(Chugai Pharmaceutical Co., Ltd.)

Facilities (Location)	Description	Planned investment (Billions of yen) Total amount	Investment to date	Fund-raising method	Start of construction	Slated transfer date
—	Purchase of land for business in Totsuka-ku, Yokohama	43.4	4.8	Self-financing	March 2016	December 2018

(Chugai Pharma Manufacturing Co., Ltd.)

Facilities (Location)	Description	Planned investment (Billions of yen) Total amount	Investment to date	Fund-raising method	Start of construction	Slated completion date
Utsunomiya Plant (Utsunomiya City, Tochigi)	Enhancement of high-mix, low-volume production capability for pre-filled syringe form products (Installation of tray filler)	6.0	5.3	Self-financing	September 2013	October 2018
Ukima Plant (Kita-ku, Tokyo)	Enhancement of high-mix, low-volume production of antibody APIs for initial commercial products (Expansion of production capability with construction of UK3 facility)	37.2	24.3	Self-financing	November 2015	December 2018

Note: Plan concerning enhancement of high-mix, low volume production capability for pre-filled syringe form products (installation of tray filler) was transferred to Chugai Pharma Manufacturing Co., Ltd. in 2015.

Outlook for 2018

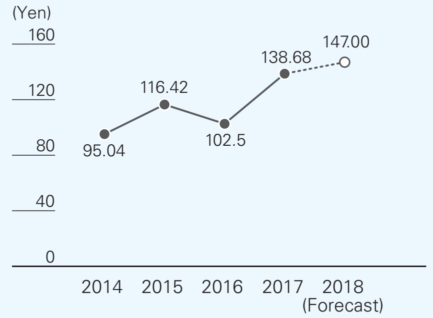
Forecast Assumptions

For 2018, Chugai assumes exchange rates of ¥115/CHF, ¥133/EUR, ¥111/USD and ¥84/SGD, and that the scale of seasonal influenza will be about the same as the average since 2012.

Results Forecast (Core Basis)

	2016	2017	2018 Forecast	(Billions of yen) 2017/2018 Change
Domestic sales (excluding Tamiflu)	379.7	388.4	374.8	-3.5%
Tamiflu sales	13.5	16.9	5.6	-66.9%
Overseas sales	79.5	94.0	118.1	+25.6%
Exports to Roche	62.8	76.4	99.6	+30.4%
Royalties and other operating income	19.1	34.9	43.0	+23.2%
Core operating profit	80.6	103.2	108.0	+4.7%
Core EPS (Yen)	102.50	138.68	147.00	+6.0%

Core EPS*



* Core EPS = Core net income attributable to Chugai shareholders / Diluted weighted average shares outstanding

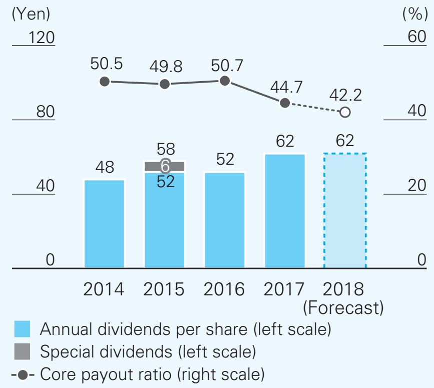
- Domestic sales excluding Tamiflu are forecast to decrease compared with 2017 due to the effect of NHI drug price revisions, including the return of the premium for new drug creation for Herceptin and Rituxan, despite growth in sales of oncology product Alecensa, and growth in the bone and joint diseases area driven by Actemra, Edirol and Bonviva.
- Exports to Roche are expected to increase because of sustained growth in Actemra sales volume and steady growth in exports of Alecensa, which obtained approval for the additional indication of first-line treatment in Europe at the end of 2017. Exports of Hemlibra are forecast to decrease partly because there are few patients with inhibitors, currently the main target patients for this drug, and initial shipments were already made during 2017.
- Royalties and other operating income are forecast to increase substantially because of one-time income in connection with the transfer of long-listed products, in addition to an increase in payments from Roche for co-promotion and royalties for Actemra.
- Regarding cost of sales and operating expenses, although the ratio of cost of sales to sales is forecast to remain virtually unchanged from the previous year, we expect overall operating expenses to increase, mainly due to an increase in R&D expenditures as a result of the progress of development projects.
- Despite the expected negative impact from NHI drug price revisions, we forecast that Core operating profit and Core EPS will increase, mainly as a result of growth in sales of Alecensa, Actemra and other products, as well as income from the transfer of long-listed products.

Fundamental Profit Distribution Policy and Dividends

After taking strategic funding needs and the results forecast into account, Chugai aims for a consolidated payout ratio of 50 percent of Core EPS on average to provide for stable allocation of profit to all shareholders. Internal reserves will be used to increase corporate value through investments for further growth in existing strategic areas and to explore future business opportunities.

	2015	2016	2017	(Yen) 2018 Forecast
Basic net income per share (EPS)	112.00	98.12	133.04	—
Core EPS	116.42	102.50	138.68	147.00
Equity per share attributable to Chugai shareholders (BPS)	1,146.17	1,181.67	1,265.46	—
Cash dividends per share	58	52	62	62
Core payout ratio	49.8%	50.7%	44.7%	42.2%

Dividends per Share/ Core Payout Ratio



- Cash dividends per share for 2017 totaled ¥62.
- The five-year average Core EPS payout ratio for 2017 was 48.4 percent. (We expect the five-year average Core EPS payout ratio for 2018 to be 47.0 percent.)
- The forecast for cash dividends per share for 2018 includes an interim dividend of ¥31.

Business Risks

Chugai's corporate performance is subject to material impact from a range of possible future events. Below, we list what we consider the principal sources of risk to the development of our business. We recognize the possibility of these risk events actually occurring, and have prepared policies to forestall such events and take appropriate measures when they do occur.

The categories of risk identified in this section are based on assessments made by Chugai Pharmaceutical as of December 31, 2017.

New Product Research and Development

With the goal of becoming a top pharmaceutical company capable of continuously delivering innovative new drugs, Chugai aggressively pursues research and development in Japan and overseas. Our development pipeline is well stocked, especially in the field of oncology. However, bringing all drug candidates smoothly through to the market from the development stage may not be possible, and we expect to have to abandon development in some cases. When such a situation occurs, there is a possibility of a material impact on Chugai's business performance and financial position, depending on the product under development.

Changes in Product Environments

In recent years, there have been rapid technological advancements in the pharmaceutical industry, and Chugai faces fierce competition from pharmaceutical companies in Japan and overseas. Chugai's business performance and financial position may be materially affected by changes in product environments caused by the sale of competitor products and generics and also by changes in marketing and technology license contracts concluded by Chugai.

Side Effects

Pharmaceutical products are approved by regulatory authorities in each country after stringent screening. However, because of the characteristics of these products, it is difficult to completely prevent side effects from their use even if all possible safety measures are taken. In cases where side effects occur, in particular newly discovered serious side effects, there is a risk of a material impact on Chugai's business performance and financial position.

Medical System Reform

Japan's health insurance system is being reformed against a backdrop of rapid demographic change, with a falling birthrate and an increasing number of elderly people. As part of this process, measures are being taken to curb medical expenses. Revisions have been made to the system of reimbursement of medical fees, and debate is continuing in such areas as NHI drug price reform. Overseas, pressure to reduce drug costs is increasing, especially in advanced countries. Future measures to curb drug costs in these countries could materially affect Chugai's business performance and financial position.

Intellectual Property Rights

Chugai recognizes that it applies intellectual property rights in pursuing its business activities, and takes care to distinguish its own proprietary intellectual property rights and licensing arrangements recognized under law. However, the possibility remains of unintentional infringement on third-party intellectual property rights. Major disputes related to intellectual property rights relating to our business could have a material impact on Chugai's business performance and financial position.

Strategic Alliance with Roche

In line with its strategic alliance with Roche, Chugai is the only pharmaceutical partner of Roche in the Japanese market and has granted Roche first refusal rights with respect to its products in global markets outside Japan, excluding South Korea and Taiwan. Consequently, Chugai has in-licensed and out-licensed many products and projects from and to Roche. Changes in Chugai's strategic alliance with Roche for any reason could have a material impact on its business performance and financial position.

International Business Activities

Chugai actively conducts international operations including overseas marketing and research and development, and export and import of bulk drug products. These international business activities expose Chugai to risks associated with legal and regulatory changes, political instability, economic uncertainty, local labor-management relations, changes in and interpretations of systems of taxation, changes in foreign currency markets, differences in commercial practices and other issues. Compliance and other problems arising from these issues could have a material impact on Chugai's business performance and financial position.

Information Technology Security and Information Control

Chugai makes full use of a wide range of information technology systems in its business activities. Consequently, it is subject to the risk of its operations being disrupted due to system malfunctions, computer viruses or other external factors. In addition, an accident or other incident resulting in the leakage of confidential information could have a material impact on Chugai's business performance and financial position.

Impact from Large-Scale Disasters and Other Contingencies

In the event of natural disasters such as earthquakes or typhoons, or accidents such as fires or other contingencies, damage to Chugai's business sites or sales locations, or those of its business partners, could interrupt its operations. In addition, Chugai could incur significant expenses for the repair of damaged buildings and facilities. Such circumstances could therefore have a material impact on Chugai's business performance and financial position.

Litigation

There is a possibility that litigation may be brought against Chugai over side effects of pharmaceuticals, product liability, labor issues, fair trade or other issues associated with its business activities, which could have a material impact on Chugai's business performance and financial position.

Environmental Issues

In addition to complying with laws and regulations related to environmental issues, Chugai has established a set of even higher voluntary standards and has been making efforts to achieve them. In the course of Chugai's business activities, violations of relevant laws or regulations may occur as a result of an accident or other incident. Any related expenses could have a material impact on Chugai's business performance and financial position.

Consolidated Financial Statements

1. Consolidated income statement and consolidated statement of comprehensive income

(1) Consolidated income statement in millions of yen

	Year ended December 31	
	2017	2016
Revenues	**534,199**	**491,780**
Sales (Note 2)	499,308	472,673
Royalties and other operating income (Note 2)	34,891	19,108
Cost of sales	(254,171)	(247,944)
Gross profit	**280,028**	**243,836**
Marketing and distribution	(72,800)	(69,770)
Research and development	(92,947)	(85,011)
General and administration	(15,347)	(12,171)
Operating profit	**98,934**	**76,884**
Financing costs (Note 3)	(110)	(86)
Other financial income (expense) (Note 3)	(87)	1,111
Other expense (Note 4)	(1,706)	(3,460)
Profit before taxes	**97,031**	**74,448**
Income taxes (Note 5)	(23,490)	(20,076)
Net income	**73,541**	**54,372**
Attributable to:		
Chugai shareholders (Note 20)	72,713	53,592
Non-controlling interests (Note 21)	827	780
Earnings per share (Note 25)		
Basic (yen)	133.04	98.12
Diluted (yen)	132.83	97.97

(2) Consolidated statement of comprehensive income in millions of yen

	Year ended December 31	
	2017	2016
Net income recognized in income statement	**73,541**	**54,372**
Other comprehensive income		
Remeasurements of defined benefit plans (Notes 5 and 20)	916	(3,472)
Items that will not be reclassified to the income statement	**916**	**(3,472)**
Available-for-sale investments (Notes 5 and 20)	1,204	(1,735)
Cash flow hedges (Notes 5 and 20)	(3,293)	5,204
Currency translation of foreign operations (Notes 5 and 20)	3,713	(3,296)
Items that may be reclassified subsequently to the income statement	**1,624**	**173**
Other comprehensive income, net of tax (Note 5)	**2,540**	**(3,300)**
Total comprehensive income	**76,081**	**51,073**
Attributable to:		
Chugai shareholders (Note 20)	75,154	50,393
Non-controlling interests (Note 21)	927	680

2. Consolidated balance sheet in millions of yen

	December 31, 2017	December 31, 2016
Assets		
Non-current assets:		
Property, plant and equipment (Note 6)	171,569	157,081
Intangible assets (Note 7)	21,078	19,299
Financial non-current assets (Note 8)	11,350	9,706
Deferred tax assets (Note 5)	34,501	27,474
Other non-current assets (Note 9)	14,836	13,965
Total non-current assets	**253,333**	**227,525**
Current assets:		
Inventories (Note 10)	169,056	185,440
Accounts receivable (Note 11)	174,284	167,482
Current income tax assets (Note 5)	717	1
Marketable securities (Note 12)	104,018	110,176
Cash and cash equivalents (Note 13)	139,074	95,368
Other current assets (Note 14)	11,990	20,293
Total current assets	**599,141**	**578,760**
Total assets	**852,473**	**806,285**
Liabilities		
Non-current liabilities:		
Long-term debt (Note 15)	(207)	(510)
Deferred tax liabilities (Note 5)	(9,211)	(9,146)
Defined benefit plan liabilities (Note 23)	(9,292)	(8,790)
Long-term provisions (Note 16)	(2,041)	(2,140)
Other non-current liabilities (Note 17)	(15,923)	(15,543)
Total non-current liabilities	**(36,674)**	**(36,128)**
Current liabilities:		
Short-term debt (Note 15)	(129)	(135)
Current income tax liabilities (Note 5)	(18,541)	(10,533)
Short-term provisions (Note 16)	(79)	(76)
Accounts payable (Note 18)	(63,518)	(72,346)
Other current liabilities (Note 19)	(40,635)	(40,570)
Total current liabilities	**(122,902)**	**(123,660)**
Total liabilities	**(159,576)**	**(159,788)**
Total net assets	**692,897**	**646,497**
Equity:		
Capital and reserves attributable to Chugai shareholders (Note 20)	691,924	645,508
Equity attributable to non-controlling interests (Note 21)	973	989
Total equity	**692,897**	**646,497**

3. Consolidated statement of cash flows in millions of yen

	Year ended December 31	
	2017	2016
Cash flows from operating activities		
Cash generated from operations (Note 26)	124,776	102,797
(Increase) decrease in working capital	14,465	(36,159)
Payments made for defined benefit plans	(2,483)	(2,381)
Utilization of provisions (Note 16)	(34)	(77)
Other operating cash flows	(6,447)	(54)
Cash flows from operating activities, before income taxes paid	**130,278**	**64,127**
Income taxes paid	(22,655)	(25,339)
Total cash flows from operating activities	**107,623**	**38,787**
Cash flows from investing activities		
Purchase of property, plant and equipment	(32,881)	(30,084)
Purchase of intangible assets	(11,645)	(6,247)
Disposal of property, plant and equipment	64	(91)
Disposal of intangible assets	452	-
Interest and dividends received (Note 26)	271	301
Purchases of marketable securities	(208,480)	(208,686)
Sales of marketable securities	215,510	232,018
Sales of investment securities	-	2,679
Other investing cash flows	(8)	4
Total cash flows from investing activities	**(36,718)**	**(10,107)**
Cash flows from financing activities		
Interest paid	(5)	(8)
Dividends paid to Chugai shareholders	(30,054)	(31,677)
Dividends paid to non-controlling shareholders	(944)	(1,105)
Exercise of equity compensation plans (Note 24)	922	506
(Increase) decrease in own equity instruments	(20)	(7)
Other financing cash flows	538	(1,124)
Total cash flows from financing activities	**(29,563)**	**(33,415)**
Net effect of currency translation on cash and cash equivalents	2,363	(1,604)
Increase (decrease) in cash and cash equivalents	**43,706**	**(6,338)**
Cash and cash equivalents at January 1	95,368	101,707
Cash and cash equivalents at December 31 (Note 13)	**139,074**	**95,368**

4. Consolidated statement of changes in equity in millions of yen

	Attributable to Chugai shareholders						
	Share capital	Capital surplus	Retained earnings	Other reserves	Subtotal	Non-controlling interests	Total equity
Year ended December 31, 2016							
At January 1, 2016	**72,967**	**62,567**	**488,954**	**1,369**	**625,857**	**1,414**	**627,271**
Net income recognized in income statement	-	-	53,592	-	53,592	780	54,372
Available-for-sale investments (Notes 5 and 20)	-	-	-	(1,735)	(1,735)	-	(1,735)
Cash flow hedges (Notes 5 and 20)	-	-	-	5,204	5,204	-	5,204
Currency translation of foreign operations (Notes 5, 20 and 21)	-	-	-	(3,195)	(3,195)	(101)	(3,296)
Remeasurements of defined benefit plans (Notes 5 and 20)	-	-	(3,472)	-	(3,472)	-	(3,472)
Total comprehensive income	**-**	**-**	**50,119**	**273**	**50,393**	**680**	**51,073**
Dividends (Notes 20 and 21)	-	-	(31,675)	-	(31,675)	(1,105)	(32,780)
Equity compensation plans (Note 20)	-	276	-	-	276	-	276
Own equity instruments (Note 20)	-	657	-	-	657	-	657
At December 31, 2016	**72,967**	**63,500**	**507,399**	**1,642**	**645,508**	**989**	**646,497**
Year ended December 31, 2017							
At January 1, 2017	**72,967**	**63,500**	**507,399**	**1,642**	**645,508**	**989**	**646,497**
Net income recognized in income statement	-	-	72,713	-	72,713	827	73,541
Available-for-sale investments (Notes 5 and 20)	-	-	-	1,204	1,204	-	1,204
Cash flow hedges (Notes 5 and 20)	-	-	-	(3,293)	(3,293)	-	(3,293)
Currency translation of foreign operations (Notes 5, 20 and 21)	-	-	-	3,613	3,613	100	3,713
Remeasurements of defined benefit plans (Notes 5 and 20)	-	-	916	-	916	-	916
Total comprehensive income	-	-	**73,630**	**1,524**	**75,154**	**927**	**76,081**
Dividends (Notes 20 and 21)	-	-	(30,055)	-	(30,055)	(944)	(30,998)
Equity compensation plans (Note 20)	3	102	-	-	105	-	105
Own equity instruments (Note 20)	-	1,213	-	-	1,213	-	1,213
At December 31, 2017	**72,970**	**64,815**	**550,974**	**3,166**	**691,924**	**973**	**692,897**