

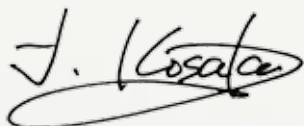
Message from the CEO

With an unwavering focus on innovation, Chugai has finally achieved its longstanding management goal of becoming a top pharmaceutical company.

Starting in 2019, we will work toward becoming a “top innovator” for advanced and sustainable patient-centric healthcare based on creation of shared value with stakeholders.

The key to achieving that will remain the pursuit of innovation.

Chugai will further enhance its corporate value through steady and continuous innovation for the benefit of patients and the medical community.



Tatsuro Kosaka

Representative Director,
President & CEO



Question

1

What kind of company is Chugai? Please summarize the Company's growth and progress to date.

We are a company that pursues innovation for the benefit of patients and the medical community. As a result, we have also achieved our goal of becoming a top pharmaceutical company.

The key word for us has always been, and still is, innovation.

Chugai was founded in response to the shortage of medicine in the aftermath of the Great Kanto Earthquake of 1923. Since then, the Company has consistently conducted its business for the benefit of patients and human health. Chugai's history is marked by ups and downs, but each time we have faced a significant change in the external environment or a management crisis, we have overcome it through innovation, and have continued to grow. The shift of our business from over-the-counter drugs to prescription drugs, our venture into and investment in biopharmaceutical research, and our strategic alliance with Roche, were all decisions Chugai made in order to continue to innovate for the benefit of patients and the medical community.

The "top pharmaceutical company" ideal we decided on in 2009 was a goal we sought to achieve by the late 2010s in

order to position Chugai for further innovation. We set numerical and qualitative targets, and as a result of reforms in all our functions, we achieved our goal in 2018 (see page 12 for details). I view our position in the industry, successes in research and development, progress in globalization and other accomplishments as indicators of our evolution into a company that has earned the trust and confidence of stakeholders. In 2018, the final year of mid-term business plan IBI 18, accomplishments included the global growth of products from Chugai research, including Hemlibra, and the launch of Tecentriq in Japan, and we steadily advanced our priority agenda. Financially, we reported record profits, and as a result, our market capitalization was also in the top tier of Japanese pharmaceutical companies.

Question

2

Please explain the key factors that enabled Chugai to achieve the top pharmaceutical company goal, and the challenges that lie ahead.

Our drug discovery capabilities, our unique business model and the growth of our human resources were the key factors. Moving forward, we will need to think about ways to contribute more broadly in such areas as the lifestyles of patients and medicine itself.

The key factor behind that achievement is our drug discovery capabilities. Innovative products from Chugai's own research, including Actemra, Alecensa and Hemlibra, became growth drivers. Our development pipeline is also full of promising projects. Satralizumab (SA237), which has the potential to be our fourth global product, has received breakthrough therapy designation from the FDA, and is showing good results in clinical trials. Our unique business model based on our alliance with Roche enabled us to accelerate research and development and make it a foundation

of our business. That model has led to significant achievements, as access to Roche's network has made it possible for us to develop and market our products globally while in-licensing Roche's major products, including Tecentriq, for sale in Japan. Above all, I am pleased that the growth of our human resources has become a driving force of our business growth. Our employees have continually taken on the challenge of meeting the rising expectations of patients and healthcare professionals. This in turn has made our employees more confident.

On the other hand, the healthcare and pharmaceutical industries foresee an environment of greater uncertainty and fierce competition. The problem of financing healthcare systems is becoming increasingly serious worldwide, while industry barriers are expected to disappear as a result of advances in life science and digital technologies, including artificial intelligence and IoT. Expectations for the healthcare and pharmaceutical industries

will continue to rise, creating opportunities for Chugai, which has a leading presence in the industry, to contribute more broadly. While our core focus will continue to be pharmaceutical products for the benefit of patients (“the pill”), we also need to position Chugai for the future by expanding our field of vision to “around the pill” – i.e., initiatives to maximize the value of medicines – as well as services “beyond the pill” in medicine and healthcare,

including the use of artificial intelligence and other disruptive innovations. An example is the genomic profiling tool of the FMI business,* which began in 2018. Use of this tool in diagnosis will promote the advancement of personalized healthcare, and by combining it with real-world data, we will further broaden the value we create.

* Development and commercialization of the products of Foundation Medicine Inc. in Japan

Question 3

What are your thoughts on Chugai's value creation going forward?

We aim to become a top innovator for advanced and sustainable patient-centric healthcare based on the creation of shared value with stakeholders.

To show the direction of our value creation going forward, we decided to aim for “creating shared value” with stakeholders. We have long believed that the value of our medicines and solutions must lead to value for society. Our thinking is the same as that behind the U.N. Sustainable

Development Goals (SDGs). For instance, with Hemlibra we help people with hemophilia A and their families. This drug not only improves the symptoms of the disease and quality of life, but is expected to dramatically change people's lives. As we expand the scope of our contribution

and our areas of value creation, I would like our employees to have a clear awareness of shared value. I think this could even be a driving force for innovation.

Based on this line of thinking, we have updated the Core Values and the Envisioned

Results of Quantitative and Qualitative Goals for Becoming a Top Pharmaceutical Company

Numerical target: Rank within the top 3 major Japanese pharmaceutical companies in the following categories

Domestic sales share	Ranked 5th ¹	△
Consolidated operating profit margin	2nd	○
Consolidated operating profit per employee	2nd	○
Domestic sales per MR	1st ²	○

Numerical target: No.1 domestic presence in strategic disease areas

	Market share	Stakeholder satisfaction	
Oncology	1st ¹	1st ³	○

Renal: 2nd¹/2nd³, Bone & Joint: 2nd¹/2nd³, RA (biologics): 2nd¹/1st³

Numerical target: No.1 presence in hospital market based on medical care networks linking healthcare providers

	Market share	Stakeholder satisfaction	
Share of hospital sales (≥100 beds)	1st ¹	1st ³	○

Numerical target: Expansion of global presence

Increase overseas sales ratio	2008: 10.4% 2018: 24.2%
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○ = Achieved △ = Almost achieved

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- Calculated by Chugai, based on data from Fuji-Keizai Co., Ltd.
- Copyright © 2019 anterior. Source: Rep-i 201808. Reprinted with permission. Based on a survey of physicians' overall evaluation of MRs. Scope of the survey is defined by Chugai.

Qualitative target: A company that satisfies all its stakeholders and receives their active support and trust

Patients and Healthcare Professionals: Play a part in increasing treatment satisfaction and the contribution of drugs in cancer treatment in our capacity as a leading oncology company	○
Shareholders and Investors: Realize growth strategies based on innovation (Market capitalization: 31st in Japan overall, 1st in domestic pharmaceutical industry) (as of December 28, 2018)	○
Roche: Contribute to growth of Roche Group by out-licensing Actemra, Alecensa, and Hemlibra and realize revenue and profit growth by fully leveraging our alliance with Roche.	○

Goal: 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	○
<ul style="list-style-type: none"> 7 breakthrough therapy designations for 4 products (No. 1 in domestic pharm.) Establish world-class manufacturing base (completion of HEM/ALC global inspections) 	
Contribution to the Roche Group's results through product-appropriate fostering and sales	○
<ul style="list-style-type: none"> Maximize product value through simultaneous global development and filing Achieve no. 1 customer satisfaction in strategic disease areas by establishing a system for providing new solutions 	
Leadership in pharmaceutical industry activities	○
<ul style="list-style-type: none"> Promote personalized healthcare in Japan Raise employee awareness of being part of a top pharmaceutical company Lead the field of drug safety by establishing a system to provide value-added safety information 	
Activities in which all employees have an awareness, sense of responsibility and pride as part of a top pharmaceutical company	○
<ul style="list-style-type: none"> Lead the industry as Japan's foremost company in biopharmaceuticals Become a world-class company in employee engagement Facilitate human resource development that also creates win-win relationships at the individual level through collaboration with Roche 	

Future in our Mission Statement to clarify the path Chugai will take (see pages 4-5 for details on our Core Values and Envisioned Future). Now that we have achieved our goal of becoming a top pharmaceutical company, our next goal is to be a top innovator in the healthcare industry. In our difficult business environment, there is only one way for us to realize advanced and sustainable patient-centric healthcare, and that is to continuously pursue innovation. Our image of a “top innovator” is that of a

drug discovery startup that has the benefit of scale.

At the same time, through a wide-ranging assessment, we established the material issues we should work on in creating shared value. Sharing these issues both internally and externally will increase the momentum of our strategic initiatives and facilitate dialogue with stakeholders.



Question

4

What are you aiming for in the new mid-term business plan?

Based on the five strategies of our priority agenda, we will continue to promote innovation and sharing value with stakeholders, thereby increasing our corporate value.

We formulated the new mid-term business plan IBI 21 for the three years from 2019 based on our view of the external environment and approach to value creation, which I mentioned earlier. It consists of strategies for continuously promoting innovation and sharing value with stakeholders, thereby increasing our own corporate value. The “IBI” in the name of the plan expresses our intention to achieve sustained business growth through innovation by further strengthening Chugai’s basic stance with regard to innovation: “Innovation Beyond Imagination.”

The plan consists of a two-part priority agenda – “Create global growth drivers and maximize value” and “Strengthen HR and infrastructure that support Chugai’s business” – and five strategies for accomplishing them. (See pages 38-51 for details on new mid-term business plan IBI 21.) We will focus even more on creating innovative drugs through advancement of new discovery technologies and modalities, and will enhance the value of solutions for addressing increasingly complex and diverse needs. We will also leverage the FMI business to promote the development of personalized healthcare.

To build a business foundation that will enable us to concentrate our resources on innovation, we will continue to strengthen talent development and improve our cost structure. At the same time, we will establish and strengthen platforms for the sustainability of both Chugai and society. There has been increasing emphasis on ESG issues recently, and I believe that bolstering initiatives for sustainability is what companies should aspire toward. We will concentrate on doing so while carefully examining issues.

Question

5

What will you need to do in order to carry out your strategies and enhance corporate value over the medium to long term?

The pursuit of innovation will continue to be the key. We will focus on three elements that give rise to innovation: science, technology and corporate culture.

The essential elements in carrying out our strategies – in other words, elements that give rise to innovation – are science, technology and corporate culture. While maintaining our uncompromising approach to science, which is the source of our value and the standard for determining our actions, we will accelerate open innovation with academia, startups, and companies in different industries. We plan to increase investment in this area. In addition, we will step up efforts for greater diversity and

strengthen succession plans and talent management to shape our corporate culture for the continued pursuit of innovation.

Chugai has many employees who are mild-mannered yet passionately committed to improvement. The long-term perspective of Chugai’s founder is embedded in our corporate culture. It may be part of the reason why our employees persevere even after repeated setbacks, which has led to numerous research breakthroughs

and new, unprecedented projects. If our employees can embrace new challenges supported by this culture and guided by a strong belief in sharing value with society, I am confident that we can create even greater value.

I plan to focus even more on engaging our shareholders and other stakeholders in active dialogue for sharing value. We remain committed to meeting your expectations.

Message from the Deputy Chairman



Motoo Ueno

Representative Director & Deputy Chairman
In charge of Sustainability Dept., Audit Dept.



Chugai will pursue innovation to create shared value with stakeholders. Adopting that approach throughout our business, we will continue our own evolution as a company.

Stakeholders with a Common Purpose

Human health and wellbeing is a shared goal among all of our stakeholder groups: patients, healthcare providers, business partners, and employees; the governments, health insurers and regulators that support healthcare systems; university and other research institutions, and companies in other industries; and patients' families, communities, countries, industries and society as a whole. At Chugai, benefitting the medical community and human health around the world is the value we seek to deliver and subsequently expand through the pursuit of innovation.

That effort is focused on providing innovative pharmaceutical products, but it does not end there. We provide various kinds of information and promote coordination between healthcare facilities to enable the best treatment for each patient. We have also taken measures to improve screening rates and increase diagnostic accuracy, and cooperated with government entities and business partners in patient awareness campaigns. These and other activities, for which we have partnered with healthcare providers and local governments across Japan, have helped to eliminate regional disparities in standards of care, promote personalized healthcare and facilitate early detection and intervention in potential patients. As a

result, the innovative Chugai products that play a part in patient-centric healthcare are widely used, and Chugai itself has grown.

However, maintaining sustainable growth in the current climate of uncertainty and rapid change will require us to further clarify our shared value with society and integrate it into concrete strategic activities. Accordingly, we have set our redefined Envisioned Future as the foundation of creating shared value. The strategy we have formulated to realize that Envisioned Future is the new mid-term business plan IBI 21. I mentioned in *Annual Report 2017* that we would draw up a value creation strategy that includes non-financial aspects by analyzing the social environment and identifying the value we can contribute. The strategy we developed from that process is synonymous with creating shared value, and I believe it will promote an even more active dialogue with stakeholders. In that regard, you can look forward to what comes next.

Strengthening the Principles and Platforms for Creating Shared Value

To move forward on creating shared value, we redefined the values shared by all our employees (Core Values) and updated the Chugai Business Conduct Guidelines as the Chugai Group Code of Conduct. These principles will guide us in precisely and

quickly creating shared value based on changes in the external environment and stakeholder expectations. I will personally engage in dialogue with employees to ingrain the new code of conduct in our everyday operations as early as possible.

One of the strategies in IBI 21 is to strengthen sustainable platforms. For that, we analyzed and identified future issues for Chugai and defined priority areas for enhancement. We will take a more proactive approach to social issues such as climate change and environmental pollution. Moreover, we want to particularly emphasize human rights, health and productivity management, and compliance.

While respect for human rights was already part of our behavioral standards, and was emphasized in our operations, we felt doing more to ensure the protection of human rights throughout our supply chain was another key theme. Therefore, we recently issued a human rights declaration, and are working on a plan to steadily conduct due diligence in the supply chain.

In health and productivity management, a key theme is that the health of employees is connected to the health of the organization and improvement of productivity. This is an area where we believe Chugai should be in the forefront. We will raise the level of our health and productivity management by developing new metrics and accumulating case studies.

Compliance has always been important to Chugai, and that will not change. At Chugai, corporate ethics take priority over profit. Furthermore, we believe that in addition to abiding by laws and regulations, compliance is also about complying with the expectations and requests of stakeholders – in short, creating shared value. After restructuring our compliance system at the global level in 2017, we took further steps in 2018 that included the introduction of compliance planning and monitoring at each workplace. We will continue our rigorous efforts to ensure corporate, healthcare and regulatory compliance.

Innovation in Management

Having committed to a strategy of creating shared value, we will go beyond the innovation of products and services, and plan to focus more than ever on innovation and productivity improvement across the entire supply chain, as well as promoting the evolution of healthcare structures as a whole. Creating value by developing pharmaceuticals and providing solutions will remain our core business, but in the medium to long term, we can make a

significant impact on healthcare overall by clarifying the value we deliver to patients and improving access to healthcare.

In the process of formulating our management strategy, we held discussions on the evolution of Chugai's management. One topic of those discussions was participation in the Sustainable Development Goals (SDGs) adopted by the U.N. We fully endorse the underlying purpose and principles of the SDGs, and I believe that advancing the strategy we have formulated will advance the SDGs. Among the goals, "3. Good health and well-being" is aligned with Chugai's Mission. Management is committed to fulfilling this goal, and will also actively work toward other objectives such as ensuring job satisfaction for employees, achieving technological innovation, and carrying out responsible manufacturing and marketing.

We will share value with our various stakeholders and grow together with them. To that end, Chugai will promote continuous innovation in management.

Chugai's SDG Focus



Among the 17 SDGs, Chugai prioritizes Goal 3, which directly links to its Mission. The next four SDGs shown help to achieve Goal 3, and the final six undergird its business activities.

Chugai Group Code of Conduct

The Mission set forth in the Mission Statement of the Chugai Group is to "Dedicate ourselves to adding value by creating and delivering innovative products and services for the medical community and human health around the world."

We set Core Values as the most important standards of value judgment in realizing the Mission and will operate our business in accordance with them. Chugai Group will contribute to the realization of a sustainable society by solving social issues through creating innovation and efforts toward the global environment, human rights and others.

By acting as an appropriate business guide for every employee within the Chugai Group, the Chugai Group Code of Conduct aims to ensure that these business operations are implemented. Every member of the Chugai Group must act and judge in accordance with this code.

1. Responsibility to Patients

We will make each patient's wellbeing our highest priority, and provide innovative, high-quality products and services with superior safety and efficacy.

2. Pursuing Innovation

With deep understanding and a broad perspective, we will focus our diverse talents on the continuous pursuit of innovation.

3. Acting with Integrity

We will strictly adhere to all laws and regulations in every situation, and maintain the highest standards of integrity and ethicality.

4. Respect for Human Rights

We will respect human rights in every aspect of our business activities.

5. Appropriate Partnerships

We will maintain appropriate and transparent relations with all of our stakeholders through ongoing discussion. We will work together to realize mutual development and find solutions to social issues. We also expect our business partners to maintain the highest standards of integrity and ethicality.

6. Management of Corporate Assets

We will achieve our management objectives through the optimal and appropriate management and use of corporate assets.

7. Disclosure of Information

We will actively and fairly disclose corporate information.

8. Social Contribution

As a good corporate citizen, we will actively promote our social contribution programs, and contribute to realizing a sustainable society.

9. Protection of the Global Environment

We conduct our business activities in harmony with nature and the environment, and preserve our "one and only Earth" for future generations.