



Through innovation, we  
create shared value that leads  
to corporate growth.

Chugai's Growth Strategies



## Previous Mid-Term Business Plans



Chugai has established and implemented mid-term business plans with due consideration to changes in the external environment; the results of strategies, as well as the challenges encountered in their implementation; and the evolution of the Company's strengths. The strategies in each mid-term business plan were evolutionary and linked, and while we addressed higher-level issues, we achieved steady results on all of them and demonstrated strong execution.

In the new mid-term business plan IBI 21, we will build on the value creation capabilities developed under our previous plans as we aim to create new value.

1. Diluted earnings per share attributable to Chugai shareholders on a core basis.

2. Compound annual growth rate

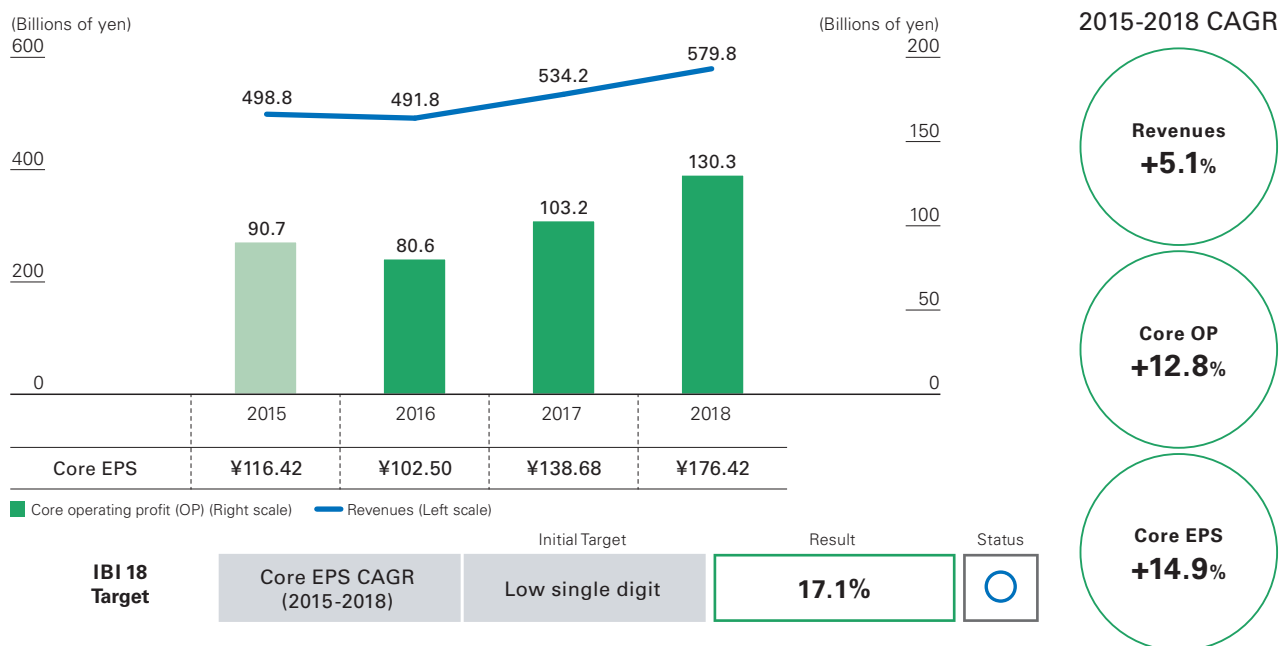
3. Based on average exchange rates for 2012

4. Based on average exchange rates for 2015

# Context of the Formulation of IBI 21

## Review of Previous Mid-Term Business Plan IBI 18

### Business Performance during IBI 18



In IBI 18, the previous mid-term business plan, Chugai focused on two priority agenda objectives: acquiring and implementing competitiveness at a top global level and pursuing a selection and concentration strategy for acceleration of growth. We worked to evolve quickly in every function, and achieved overwhelming success as a result.

In drug discovery, we successively generated a number of antibody projects and strengthened our technology platforms, including for middle molecule drugs. Development operations produced a steady stream of launches and new indications. We also improved our structure for providing healthcare solutions.

Financially, we achieved strong growth in sales and profits, and surpassed our guidance for Core EPS CAGR by a wide margin. Key factors driving these results included a substantial increase in exports of Chugai products, including Alecensa, to the Roche Group, better-than-expected sales of Tecentriq in Japan, and an increase in one-time income partly from the transfer of long-listed products.

### Summary of IBI 18

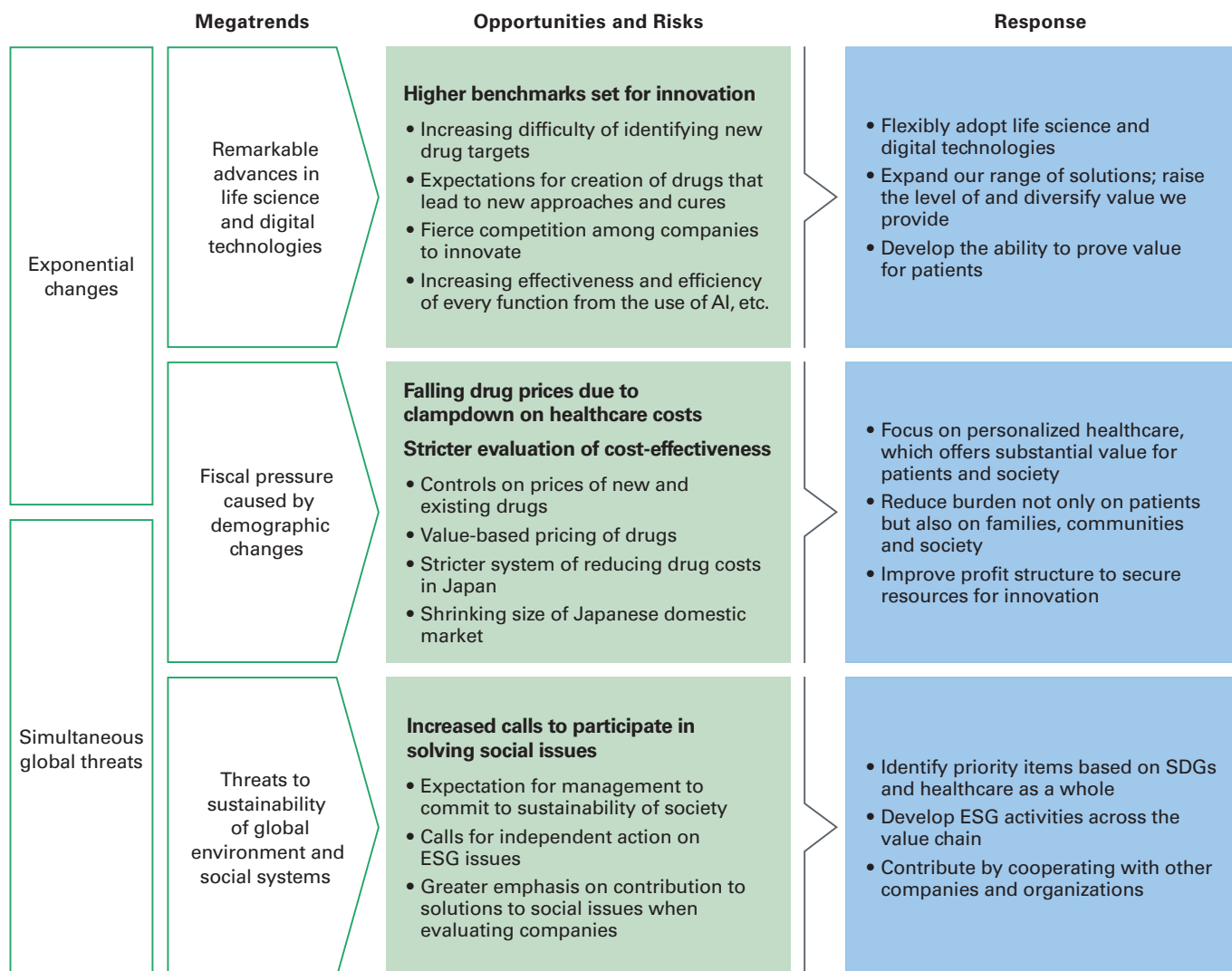
Achieving record high profit, Chugai is enriching its platforms for further growth

		Status
Financial targets		○
<ul style="list-style-type: none"> <li>• Posted consecutive record revenues and operating profit</li> <li>• Achieved industry-leading market capitalization</li> </ul>		
Priority agenda	Acquisition and implementation of competitiveness at a top global level	○
	Selection and concentration strategy for accelerated growth	
<ul style="list-style-type: none"> <li>• Continuously generated new antibody projects and enhanced drug discovery platform for middle molecules</li> <li>• Obtained early approval for Hemlibra</li> <li>• Obtained approval for Tecentriq and simultaneously developed drugs for 19 indications</li> <li>• Established system to manage FDA GMP* inspections</li> <li>• Established framework to execute regional strategy through collaboration of three Chugai divisions (Marketing &amp; Sales/Medical Affairs/Drug Safety)</li> <li>• Made steady inroads towards accelerated growth based on Hemlibra and Tecentriq</li> </ul>		

○ = Achieved

\* Good Manufacturing Practice: Standards for pharmaceutical production management and quality control

## Operating Environment



Chugai's operating environment is expected to change more rapidly than ever. Several megatrends will have a significant impact, including remarkable advances in life science and digital technologies, fiscal pressure caused by demographic changes due to population growth and aging populations worldwide, and threats to the sustainability of the global environment and social systems, including healthcare systems. In response to this changing landscape, Chugai has identified the most important opportunities and risks and determined the approaches it should take in response.

Advances in life science technologies and digital technologies are expected to lead to

the discovery of new disease mechanisms and entirely new approaches to drug discovery. With competition among companies for innovation likely to intensify further, Chugai will have to flexibly adopt various technologies to achieve more diverse and sophisticated value creation.

Demographic changes are fueling growing pressure to rein in healthcare costs. In the future, only those products and services proven to have true value for patients will be selected, which will further raise the stakes for success or failure among pharmaceutical companies. Chugai will need to focus on initiatives that bring substantial benefits for both patients and the sustainability of healthcare, as

exemplified by personalized healthcare. In addition to healthcare, the sustainability of the environment and social systems are also global challenges, and it is already accepted that companies should participate in addressing such issues, as indicated by the adoption of the U.N. SDGs. Chugai is taking a holistic view of healthcare and will actively work to solve social issues in collaboration with governments, the rest of our industry, and other parties.

# Overview of New Mid-Term Business Plan IBI 21

# IBI 21

INNOVATION BEYOND IMAGINATION

## Quantitative Outlook

**Core EPS CAGR**  
(2018-2021)

**High single digit\***

- We will make essential investment for future growth, while maintaining the momentum of growth achieved during IBI 18, and realize sustainable profit growth and expansion of corporate value.
- We will continue to target a Core EPS payout ratio of 50 percent on average.

\* 3 years, based on constant exchange rate

## New Mid-Term Business Plan: 5 Strategies

### Create Global Growth Drivers and Maximize Value

#### Strategy 1: Value Creation

Realize innovative drug discovery to cure and manage diseases

#### Strategy 2: Value Delivery

Deliver patient-centric solution to maximize value of growth drivers

#### Strategy 3: Promote Advances in Personalized Healthcare (PHC)

Realize the further advancement of PHC and innovate R&D process by utilizing digital technology and data

### Strengthen HR and Infrastructure That Support Chugai's Business

#### Strategy 4: Strengthen Human Capital and Conduct Fundamental Structural Reform

Develop high-caliber HR talent that support innovation, and thoroughly reform costs, systems and processes

#### Strategy 5: Strengthen Sustainable Platforms

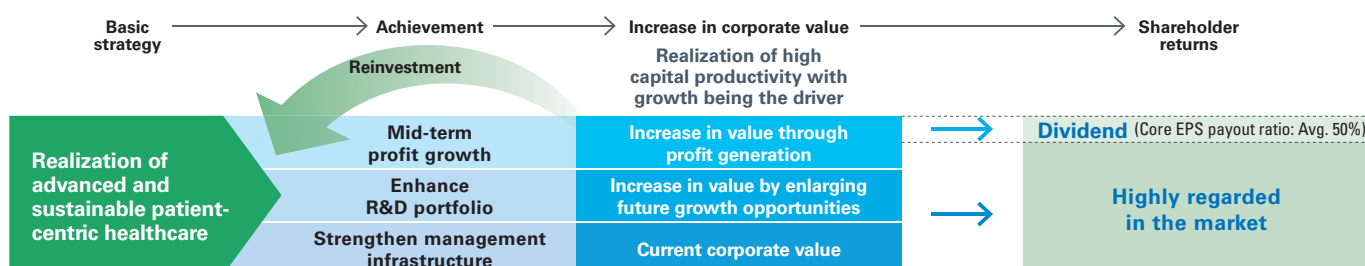
Simultaneously realize company growth and sustainable social development

The name of the new mid-term business plan, IBI 21, expresses our commitment to pursuing continuous innovation based on "Innovation Beyond Imagination (IBI)," and the challenges we will take on at a new stage with "21." Based on five strategies, we aim to accelerate the advancement of society and Chugai by generating innovation focused on novel drugs. In

quantitative terms, we are targeting a Core EPS CAGR in the high single-digit range (assuming constant exchange rates) for the three years of the plan, and will allocate resources and make management decisions with emphasis on profitability and capital productivity, including evaluation based on capital costs. Our policy on shareholder returns is to

continue to aim for a dividend payout ratio of 50 percent of Core EPS on average to provide stable dividends, taking into account the balance between shareholder returns and the internal reserves necessary for increasing corporate value.

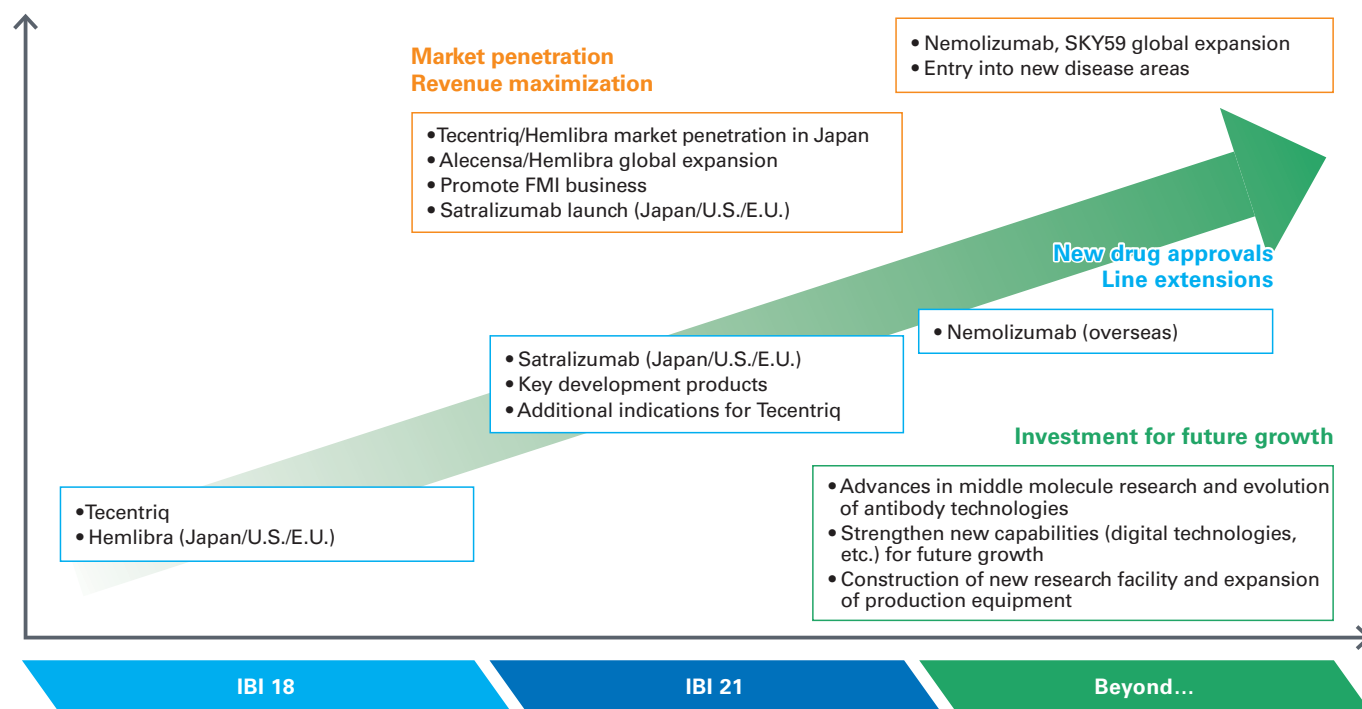
## Basic Principles of Increasing Corporate Value and Shareholder Returns





## IBI 21 Growth Outlook

In addition to market penetration of growth drivers in Japan and overseas, the approval and launch of satralizumab will support further growth.



## Relationship of Strategies to Material Issues and SDGs

Five Strategies	Material Issues	SDGs
Strategy 1: Value Creation	<ul style="list-style-type: none"> <li>• Creation of innovative drugs and services</li> </ul>	
Strategy 2: Value Delivery	<ul style="list-style-type: none"> <li>• Provision of solutions for patients</li> <li>• Fair marketing</li> <li>• Fair pricing</li> </ul>	
Strategy 3: Promote Advances in PHC	<ul style="list-style-type: none"> <li>• Adverse event management</li> </ul>	
Strategy 4: Strengthen Human Capital and Conduct Fundamental Structural Reform	<ul style="list-style-type: none"> <li>• Employee job satisfaction</li> <li>• Development of employee potential</li> <li>• Diversity and inclusion</li> </ul>	
Strategy 5: Strengthen Sustainable Platforms	<ul style="list-style-type: none"> <li>• Quality assurance and stable supply of products</li> <li>• Disclosure and dialogue</li> <li>• Improvement of healthcare access</li> <li>• Climate change countermeasures</li> <li>• Use of renewable/recycled resources</li> <li>• Protection of biodiversity</li> <li>• Environmental management system</li> <li>• Supply chain management</li> <li>• Human rights</li> <li>• Social contribution activities</li> </ul>	

## Strategy 1 ► Value Creation

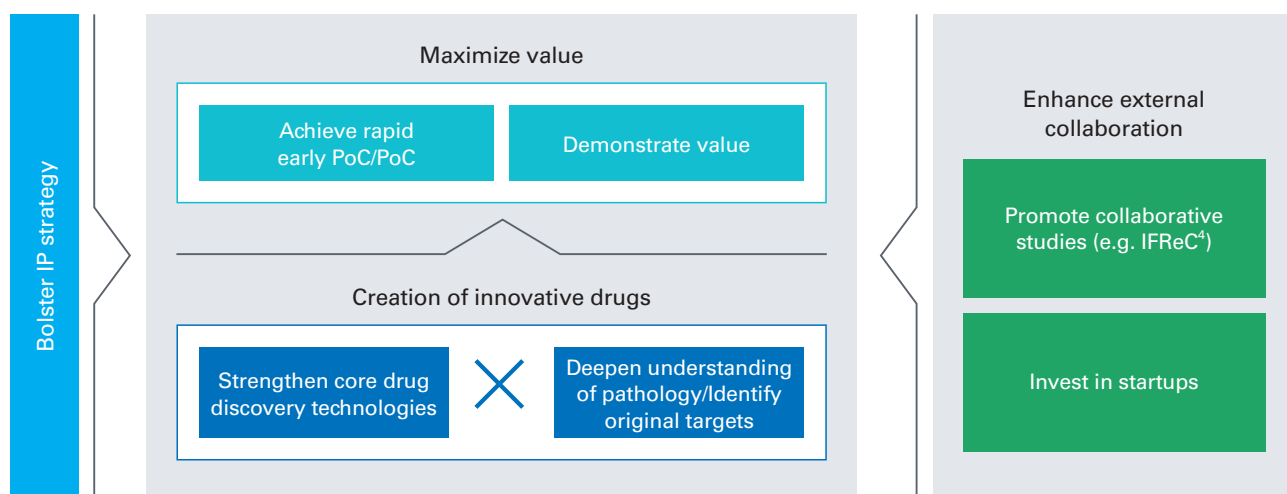


Realize innovative drug discovery to cure and manage diseases by integrating our core drug discovery technologies and biology, and by achieving rapid proof of concept (PoC).

### Strategic Points

- Strengthen core drug discovery technologies
- Deepen understanding of pathology/Identify unique targets
- Achieve rapid early PoC/PoC<sup>1</sup>
- Demonstrate value
- Bolster intellectual property (IP) strategy

Consecutive first-in class<sup>2</sup>/best-in-class<sup>3</sup> generation to realize cures



1. PoC is confirmation that the therapeutic effect conceived in the research stage is effective in humans. Early PoC means that in addition to safety, signs of efficacy or pharmacological effect have been confirmed in a limited number of cases.

2. An original drug that is highly novel and useful, and will significantly change the therapeutic system

3. A drug that offers clear advantages over other existing drugs in the same category, such as those with the same molecular target

4. Osaka University Immunology Frontier Research Center

## Creation of Innovative Drugs

Continuous creation of innovative drugs is the core of Chugai's identity, and the driver of its growth. In our drug discovery operations, we have created a succession of new drugs by prioritizing investment in cutting-edge antibody engineering technologies. In addition to therapeutic antibodies and small molecule drugs, we have selected middle molecule drugs as the domain for our next-generation core drug discovery technology, and established the requisite technological infrastructure. In IBI 21, we will attempt drug discovery at a whole new level, with the theme, "Realize innovative drug discovery to cure and manage diseases."

At the same time, maintaining our technology-driven approach, we are aiming to achieve synergy by enhancing our understanding of biology. Our research thus far has shown the treatment limitations of drugs with only one mode of action, and that there are many diseases that have similar symptoms but completely different mechanisms. By gaining an even deeper understanding of biology, we can explore the potential for cure or full recovery from an earlier stage and identify original targets – it is here that Chugai's advanced technologies will play an even bigger role. According to Dr. Hisafumi Okabe, Executive Vice President in charge of Research and Translational Research, "We are setting the goal of curing and completely managing diseases that have been difficult to treat. To achieve that, we will conduct research to gain a deeper understanding of biology, advance our technologies, and bring about process innovations to build a stronger modality platform.<sup>5</sup>"

5. A drug discovery technology platform for small molecule, middle molecule, antibodies and other modalities

## Maximizing Value

We will develop new drug candidates with world-class quality and speed. To that end, we will work to achieve PoC as quickly as possible by refining our development process, and will make full use

of our translational research organization with bases in three regions – Japan, the United States and Europe – as well as Roche's network. By doing so, we will continuously create innovative drugs with the potential to become next-generation growth drivers. At the same time, it is predicted that only those products and services that offer true value for patients will be selected. Therefore, in IBI 21, we will place emphasis on proving the value of the drugs we develop. That effort will involve establishing a system for collecting, analyzing and managing various data from the development stage to prove the value of our products for patients, including in areas such as quality of life and healthcare economics.

To deliver such innovative new drugs to patients as quickly as possible, Chugai will enhance its systems for accelerated development and product supply, with emphasis on the further evolution of manufacturing technologies to handle R&D projects for drugs with highly complex formulations, such as middle molecule drugs. Chugai will also continue striving to enhance quality control, quality assurance and regulatory functions in accordance with global standards.

## Strengthening Our IP Strategy and Accelerating Open Innovation

In conducting discovery research and clinical development, one of our competitive strategies is the application of intellectual property rights, including technology patents, and we will work to strengthen this process. We will also generate new opportunities from outside the Chugai Group through joint research with IFReC and other research organizations in Japan and overseas, and the establishment of external networks, including investment in startups.

By developing innovative drug discovery technologies and deepening our understanding of diseases, we are striving for healthcare that cures patients or allows them to not worry about their disease from day to day. We will improve our predictions of clinical efficacy, accelerate development speed and carry out development that generates evidence for improved patient quality of life.



**Hisafumi Okabe**

Executive Vice President  
In charge of Research and  
Translational Research

I want to deliver innovative new drugs that help patients live fuller lives. To create next-generation medicines not possible with existing therapeutic antibodies or small molecules, we will further strengthen our core drug discovery technologies by harnessing our proprietary engineering technologies and ability to work as a team.



**Miho Funaki**

Discovery Biologics Group 3,  
Discovery Biologics Dept.



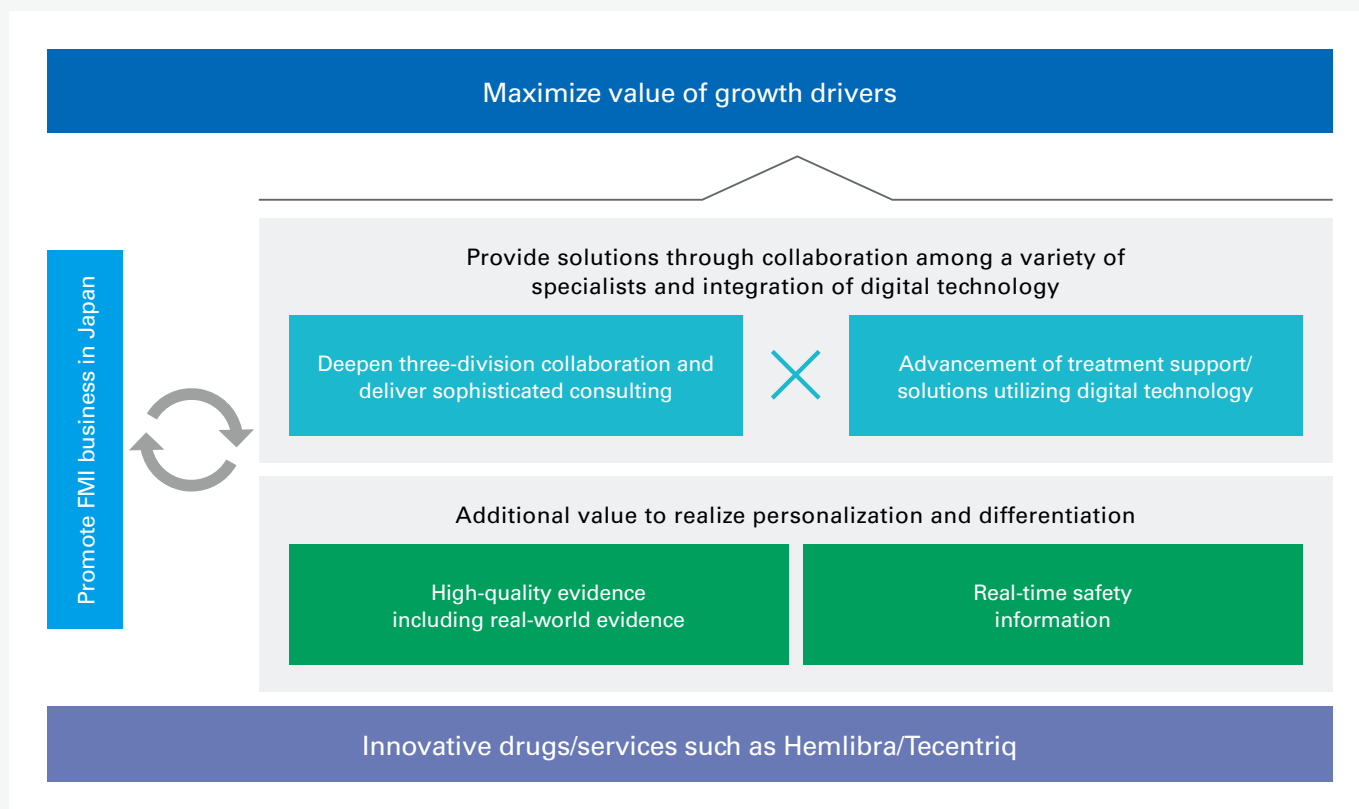
## Strategy 2 ► Value Delivery



Maximize value of growth drivers (innovative drugs and services) through patient-centric consulting and enhanced digital solutions.

### Strategic Points

- Maximize value of growth drivers
- Work to realize patient-centric healthcare
- Provide effective and efficient solutions



## Maximizing Value for Patients

Making a contribution to patients involves more than simply supplying medicines. To ensure that those medicines are used appropriately, it is also essential to accurately inform healthcare providers about their value and provide comprehensive safety information so that doctors and patients can feel confident in using them. At Chugai, the divisions in charge of these functions – Marketing & Sales, Medical Affairs and Drug Safety – collaborate with each other to provide sophisticated and diverse solutions.

In Japan, Chugai has built a solid presence in the fields of oncology, renal diseases, bone and joint diseases, and rheumatoid arthritis, among others, and holds a leading share in the hospital market. In IBI 21, we will develop solutions in these fields at a higher level to realize advanced and sustainable patient-centric healthcare, taking into consideration Chugai's role and changes in society. "In the future, healthcare as a whole will be seen as an ecosystem in which various stakeholders converge as one community that shares the goal of maximizing value for patients," says Dr. Osamu Okuda, Executive Vice President and Co-Head of the Project & Lifecycle Management Unit. "The quality of the solutions Chugai provides as part of that ecosystem will also have to evolve to deliver true value to patients."

## Acceleration of Growth Drivers

IBI 21, a plan designed to maximize the value of growth drivers by meeting the increasingly sophisticated and diverse needs of stakeholders in healthcare, includes measures for strengthening the incorporation of digital technology in response to technological advances. These efforts will focus specifically on new products and growth drivers including Tecentriq, Hemlibra and satralizumab (SA237). We are also looking to cooperate with Roche in the launch of Hemlibra and Ediol in China, which will further accelerate growth.

## Advancing the Delivery of Effective and Efficient Solutions

Accordingly, in its value delivery strategy, Chugai will work to provide more sophisticated solutions through collaboration with various specialists and the integration of digital technology.

In medical affairs, in addition to continuing post-marketing clinical studies, we will generate high-quality evidence, including evidence derived from real-world data (RWD), to enhance the value of drugs for patients. In the field of drug safety, we will combine RWD from clinical settings with our existing post-marketing surveillance and safety information database tools to ensure the most up-to-date data and generate a visual image of safety evidence, enabling more effective solutions for healthcare providers. In marketing and sales, on the basis of these various forms of data, we have developed a database tool that is adaptable to local healthcare delivery systems, and we will use it to propose treatment plans optimized for each patient.

Along with these actions, we will develop the FMI business to promote cancer genomic medicine in Japan as an initiative for realizing advanced and sustainable patient-centric healthcare. See page 47 for details on the FMI business.

In the changing healthcare landscape, Chugai must create and deliver value at a higher level. We will grow by sharing value not only with patients, healthcare providers and medical institutions, but also with patients' families, local communities and governments.



**Osamu Okuda**

Executive Vice President  
In charge of Project & Lifecycle Management (Marketing), Foundation Medicine, Corporate Planning and Co-Head of Project & Lifecycle Management Unit

Today, tomorrow and onward, I want to deliver innovative drugs to more and more patients! Giving top priority to the wellbeing of each patient, I will help to create patient-centric healthcare by providing high-value-added information.



**Maki Murata**

Branch Manager, Atsugi Branch, Kanto-Minami Regional Management Office, Marketing & Sales Div.

## Strategy 3 ► Promote Advances in PHC

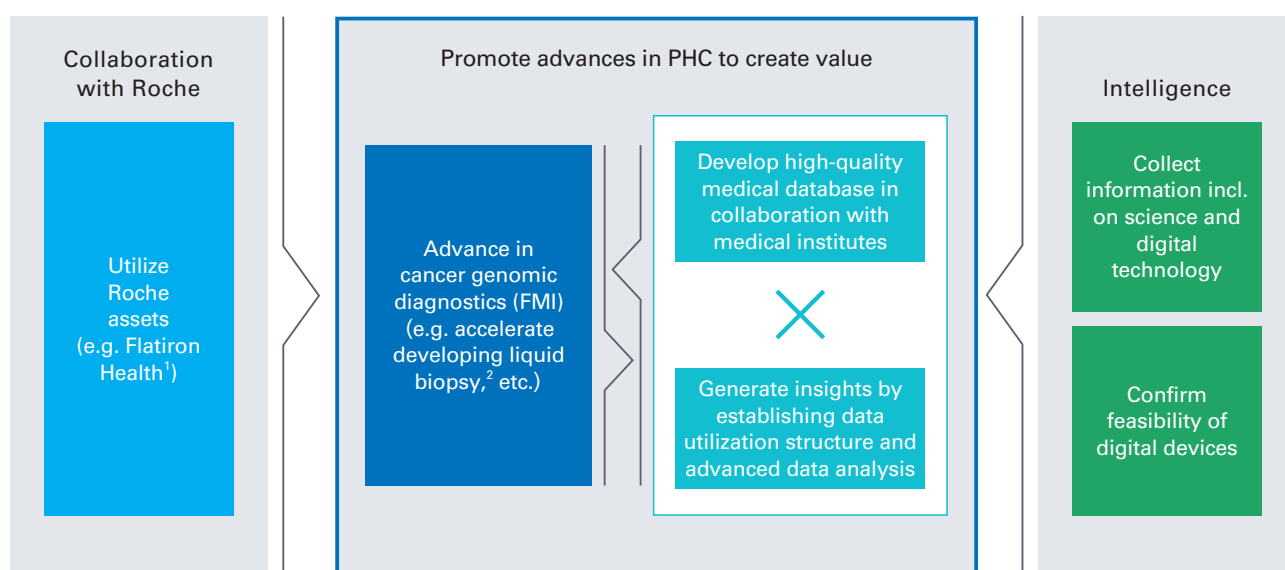


Realize further advancements in personalized healthcare (PHC) and innovate R&D processes by utilizing digital technology and data.

### Strategic Points

- Enable patient-centric PHC
- Establish a digital intelligence platform

### Further advance PHC and innovate R&D processes



1. A company that provides oncology-specific electronic health record systems and has a comprehensive database developed in collaboration with medical institutions. It became a member of the Roche Group in 2018.

2. Unlike a conventional biopsy, which uses an endoscope and needle to take a tissue sample, liquid biopsy is a technology that uses blood or other body fluid samples to make a diagnosis and a prediction of therapeutic response.

## Enabling Patient-Centric Personalized Healthcare

Personalized healthcare (PHC) offers value for patients, healthcare finances and society because treatments are given only to patients who will benefit from them. PHC is the main approach for realizing advanced and sustainable patient-centric healthcare.

PHC has continued to advance in recent years, backed by dramatic progress in genomic medicine and data analysis technology. Chugai's FMI business is part of that progress. Moreover, the evolution of digital devices and other developments have made it possible to obtain an immense amount of patient information in a timely manner, and to rapidly quantify a wide range of benefits for patients, including aspects such as quality of life in addition to the conventional yardsticks of drug efficacy and safety.

In that context, as a member of the Roche Group, a global leader in PHC, and as a pioneer of PHC in Japan, Chugai will focus on promoting the next stage of PHC to provide the best treatment for each patient. In close cooperation with government and academia, and in collaboration with the Roche Group, including Flatiron Health, Chugai will help establish a comprehensive database for healthcare providers. Speaking about this initiative, Dr. Yasushi Ito, Executive Vice President and Co-Head of the Project & Lifecycle Management Unit, says, "Through the promotion of advances in PHC we want to enable patients to live better-quality lives."

## Promoting Cancer Genomic Diagnostics (FMI Business)

To accelerate its contribution to PHC through cancer genomic medicine, in October 2018 Chugai established a specialized unit for FMI business that uses the technology of Roche Group member Foundation Medicine Inc. (FMI).

"FoundationOne® CDx Cancer Genomic Profile (F1CDx)," for which we obtained regulatory approval in December 2018, is a system for comprehensive cancer-related genomic profiling using next-generation sequencing. The system detects alterations in 324 cancer-related genes in a single operation using DNA obtained from a solid tumor, which enables the dual functionality of comprehensive genomic profiling and companion diagnostics for anticancer drugs. Chugai will work toward advancements in PHC (strategy 3) by expanding use of this product and accelerating its development for liquid biopsy.

## Establishing an Intelligence Platform Based on Digital Technology

To make effective use of the vast information in the database, it will be necessary to create a data utilization structure in cooperation with medical institutions and other outside organizations, as well as to utilize AI and acquire sophisticated data analysis technology. Chugai will collaborate with Preferred Networks, Inc., with which it entered into a comprehensive partnership in 2018, and plans to rapidly acquire capabilities by hiring and developing specialists and investing resources in technology upgrades.

Through initiatives utilizing these digital technologies and data, we will also work actively on innovation in research and development processes, including more efficient identification of drug discovery targets and target molecules and use of RWD to streamline the clinical development process.

Based on our long-standing commitment to properly delivering effective medicines to patients, and by combining various types of data, we will be able to quantify and prove the value of those medicines, and share that value with society. We are working to build a structure for collecting, analyzing and managing data within the company for that purpose.



**Yasushi Ito**

Executive Vice President  
In charge of Project & Lifecycle Management (R&D), Regulatory & Quality Management, Clinical Development, Drug Safety and Medical Affairs and Co-Head of Project & Lifecycle Management Unit

The FMI business provides cancer patients with access to appropriate treatments. By increasing the footprint of this service, we will be able to improve treatment outcomes, contribute to cancer genomic medicine, and bring about precision medicine.



**Kosuke Iijima**

Department Manager, Foundation Medicine Business Dept.

## Strategy 4 ► Strengthen Human Capital and Conduct Fundamental Structural Reform



Recruit and develop diverse and high-caliber talent that supports innovation, and conduct fundamental structural reforms.

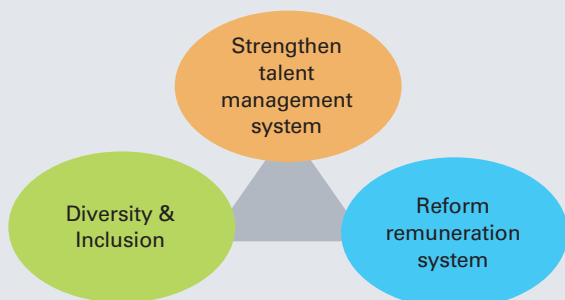
### Strategic Points

- Develop and recruit talent from a mid- to long-term perspective
- Shift to a robust profit and cost structure

Accelerate innovation by implementing strategies 1-3

Strengthen  
business platforms

Recruit and develop talent



Fundamental structural reform

Structural reform by  
reviewing costs, systems  
and processes



Shift resources to  
facilitate innovation



## Developing and Recruiting Talent from a Mid- to Long-Term Perspective

At Chugai, our people are an invaluable asset that drives the company's growth and progress. Talent management is a key management theme for the pursuit of innovation.

In IBI 21, we are placing importance on recruiting, developing and assigning diverse, high-caliber human resources who will drive innovation and respond to the rapidly changing business environment as we implement strategies 1-3 described above. We will further strengthen human resource management with a medium- to long-term view. Shinya Unno, Executive Vice President in charge of Human Resources Management, explains Chugai's upcoming human resource strategy: "For Chugai, where innovation is the key to value creation, it is important to be a great place to work, a place where every employee can work in good health, gain a sense of satisfaction, and continue to produce results. Our strategy will revolve around strengthening talent management, transforming our organizational culture, and accelerating diversity and inclusion."

Specifically, we have revised human resource requirements, and will vigorously promote position management to assign the right leaders to the right positions, as well as talent management, including succession planning. In addition, we will recruit specialists who can play key roles in implementing strategies; shift to more flexible personnel and remuneration systems to support a corporate culture that embraces challenge; and further promote diversity and inclusion. Through these measures, we will foster an organizational culture that is conducive to innovation, and encourages the active participation of diverse employees.

In implementing the PDCA cycle in our human resource strategy, we will also change our approach to the employee surveys we have been conducting. In our formulation of IBI 21, we conducted a

survey to identify human resource issues. The survey showed that our management system for implementing strategies and our level of employee engagement were at a high level compared to other global companies, but also that our work environments and organizational culture, though comparing favorably to our domestic competitors, still showed room for improvement at the global level. We will therefore focus on shifting to an organizational culture conducive to innovation throughout the company, and link that with implementation of IBI 21 to set detailed organizational reform tasks for each division and implement the PDCA cycle.

## Transforming Our Profit Structure by Conducting Fundamental Structural Reform

Looking at carrying out the strategies of IBI 21 from a financial perspective, as financial pressure increasingly undermines the business environment for pharmaceutical companies, transforming cost structures will be critical to enable the concentration of resources on innovation. At Chugai, we have taken various measures that allow us to concentrate our finite resources on innovation, including productivity improvements aimed at reducing the expense ratio and the transfer of business rights of 13 long-term listed products in 2018, but we will make further improvements under IBI 21 to achieve greater profitability. We will reorganize systems, significantly reform our business processes and cost structures, and take firm steps to streamline operations, including the introduction of robotic process automation (RPA).\* This will allow us to simultaneously achieve flexible investment in innovation and sustained profit growth. (See "Message from the CFO" on pages 52-55 for more details on Chugai's structural reforms.)

\* Automation of routine office work

Our greatest resource in generating innovation for value creation is our people. Especially given the broadening scope of the value created by Chugai, we hope to produce many talented employees who can effectively collaborate with a wide range of outside organizations and companies in other industries.



### Shinya Unno

Executive Vice President  
In charge of Human Resources Management, Human Capital Development, Legal, General Affairs and Secretarial and General Manager of Human Resources Supervisory Div., in charge of General Affairs Dept. and Secretarial Dept.

I have been devising and promoting a Company-wide digital strategy, and supporting structural and process reforms. This will help us to optimize efficient resource allocation across Chugai in our pursuit of innovation, while establishing the internal platforms for continuing to provide patient-centric, innovative healthcare.



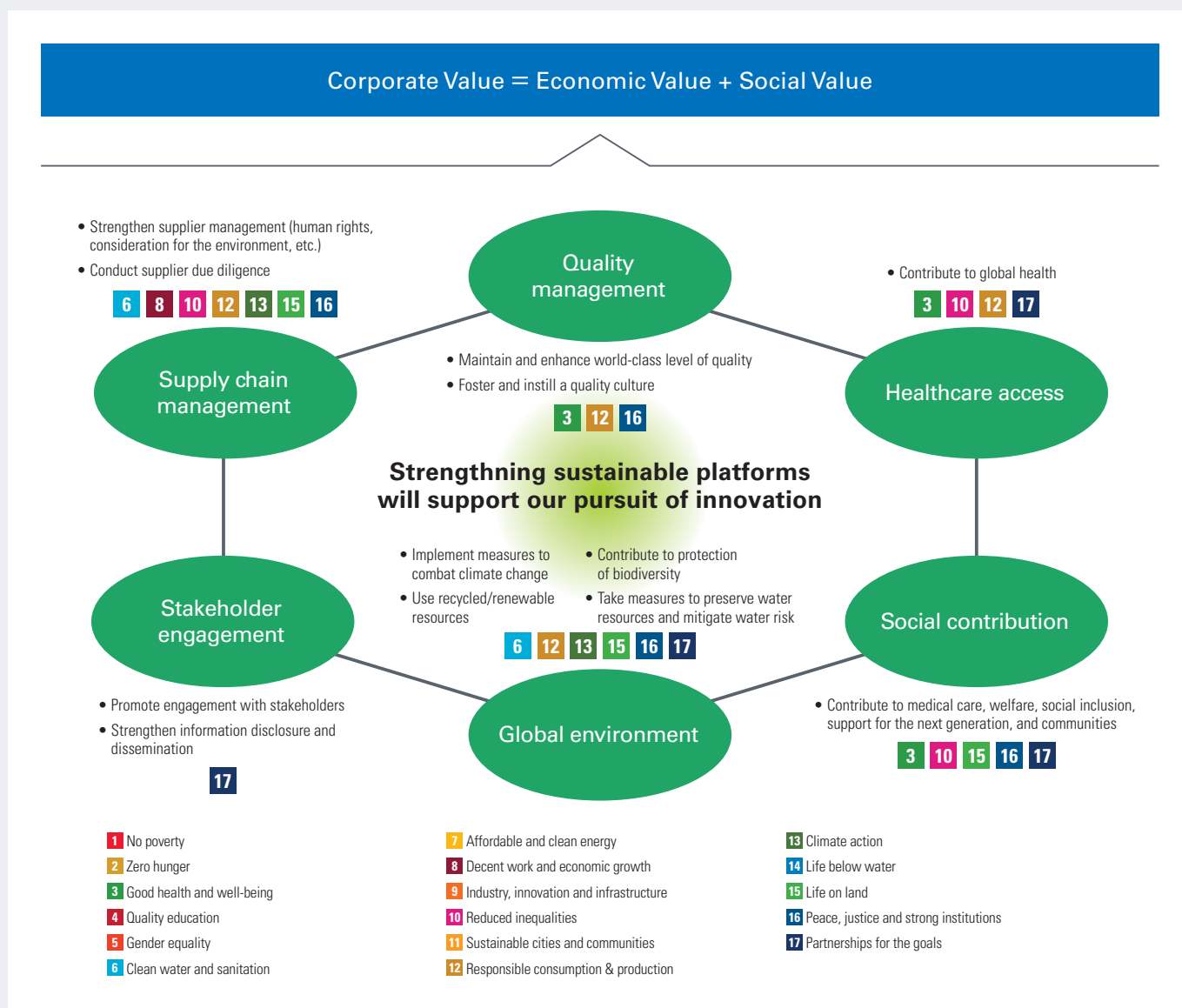
### Taro Sekizawa

Strategic Planning Group, Corporate Planning Dept.

## Strategy 5 ► Strengthen Sustainable Platforms



With the aim of improving corporate value continuously, we have specified six priority areas that support our challenge toward innovation, based on expectations and requests from society, Chugai's impact on the economy, society and environment, and stakeholder interest.



## Sustainable Platforms for Creating Shared Value

To achieve its Mission of benefiting the medical community and human health around the world, Chugai conducts its business in line with its Core Values<sup>1</sup> and the Chugai Group Code of Conduct.<sup>1</sup>

Today, however, companies are being asked to take a more active role in solving social issues because of threats to the global environment and the sustainability of social systems. Accordingly, Chugai has specified material issues for value creation with the goal of creating shared value with stakeholders. These are the key issues we need to address in order to simultaneously achieve company growth and the sustainable development of society. We have established them as sustainable platforms to support innovation. (See “Process for Establishing Material Issues” on page 26 for more information.)

## Material Issues in Six Categories

In IBI 21, we will work in the following six areas to enhance sustainable platforms.

- 1) In **quality management**, we will maintain and enhance our world-class level of quality, a key factor in the value of our products and services. In addition, we will foster and champion an organizational culture that is dedicated to the “quality” of value in every function.
- 2) In **supply chain management**, in addition to our ongoing efforts to ensure stable supplies and quality management, we will focus on supplier management in the areas of human rights and the environment. As there is room for improvement among suppliers overall in terms of human rights, we will conduct supplier due diligence in line with the human rights policy we announced in 2019.
- 3) **Healthcare access** is an area of particular emphasis in IBI 21. Up to now, we have contributed to global health through the GHIT Fund<sup>2</sup> and Access Accelerated,<sup>3</sup> but we intend to expand our activities. As Keiji Kono, Senior Vice President in charge of Global Health Policy, explains,

“Chugai’s innovative products have made a broad contribution to patients around the world in more 90 countries. However, access to healthcare coverage is a serious issue, particularly in low- and middle-income countries. Specific issues vary by country and region, so we will leverage Roche’s network and collaborate with international organizations, NGOs and other groups to develop activities that are precisely targeted to each issue.”

- 4) In **social contribution**, we will clarify the areas in which Chugai is active, and focus on activities suited to Chugai in order to contribute to medical care, welfare, social inclusion, support for the next generation, and communities.
- 5) For the **global environment**, we will actively contribute to measures to combat climate change, an issue of serious global concern, as well as increase the use of renewable and recycled resources and protect biodiversity. In addition, we will work to mitigate water risk and preserve water resources, which are especially critical to the pharmaceutical industry.
- 6) In **stakeholder engagement**, we believe that engaging with individual stakeholders more actively is a central part of our drive to create shared value. Other priorities will include strengthening disclosure and information dissemination, two-way communication, and creating new dialogue opportunities.

1. Both were revised in 2019.
2. A public-private partnership to support research and development of pharmaceuticals, vaccines and diagnostics for serious infectious diseases in developing countries. It utilizes Japan’s medical technology, innovation and knowledge more directly. (<https://www.ghitfund.org/>)
3. A global partnership launched by 22 major pharmaceutical companies that focuses on prevention and care of non-infectious diseases (<http://www.accessaccelerated.org/>)

The scope of Chugai’s contributions to global health is expanding as the Company grows through a focus on innovation. We are working to conduct activities that will enable us to contribute to sustainable improvement of healthcare coverage centered on low- and middle-income countries by leveraging our capabilities (our strengths, technologies and expertise).



**Keiji Kono**  
Senior Vice President  
In charge of External Affairs Dept.  
and Global Health Policy

The Sustainability Dept. will spearhead activities to build a more inclusive society. This will entail developing Company-wide systems for resolving social issues, including those relating to the environment and human rights, in order to create value shared by Chugai and society, as stated in our Basic Policy.



**Shigehiro Yamada**  
General Manager,  
Sustainability Dept.<sup>4</sup>

4. Name changed from Corporate Social Responsibility Department as of April 1, 2019

## Message from the CFO

By pursuing a higher level of profitability and productivity, we will secure the financial resources for innovation and reinvest them in drug discovery that helps solve social issues.

*Toshiaki Itagaki*

### Toshiaki Itagaki

Executive Vice President & CFO  
In charge of Finance & Accounting,  
Corporate Communication,  
Information System and Purchasing



### On a Strong Growth Track, But Level-Headed Analysis is Necessary

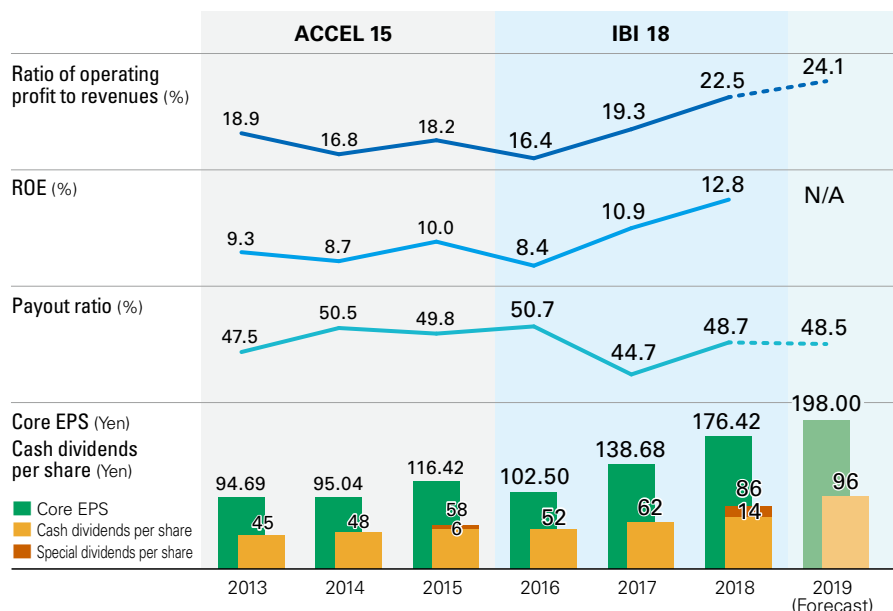
In the three years of our previous mid-term business plan IBI 18, Core EPS CAGR, our financial KPI, was 17.1 percent, well above our target of low single-digit growth (3 percent range based on constant exchange rates). Earnings were strong, with record-high revenues, operating profit and net

income for two consecutive years. We saw steady increases in the ratio of operating profit to revenues (the operating margin) and return on equity (ROE), signifying substantial improvement in our profitability and capital productivity. This strong growth momentum also gave employee confidence a major boost.

However, we cannot allow ourselves to become complacent. Level-headed analysis is needed. The primary reason we exceeded our financial targets is the growth of Chugai products Actemra, Alecensa and Hemlibra. These global products became growth drivers that expanded our export business. We expect them to continue to drive earnings. On the other hand, our domestic revenues outperformed the plan partly because of the delay of drug price revisions in connection with the increase in the consumption tax rate that had been scheduled for 2017, as well as one-time income from the transfer of long-term listed products. These non-recurring factors must be discounted.

In our domestic business, which faces an increasingly challenging market environment, several issues have become apparent. In 2018, the premiums for new drug creation for Herceptin and Rituxan had to be returned, and biosimilars entered the market. As a result, revenue growth in

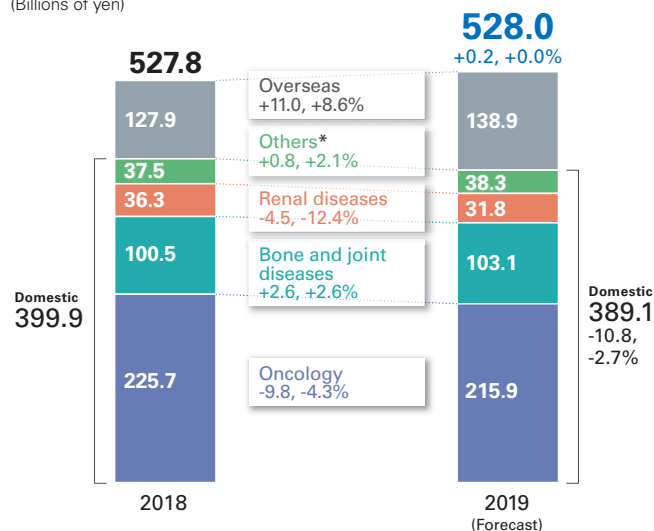
### Financial Indices





**2019 Sales Forecast**

(Billions of yen)

**Sales Forecast****Year-on-Change**

(Billions of yen/%)

Overseas		
Alecensa	36.6	+7.1 (+24.1%)
Actemra	84.6	+4.0 (+5.0%)
Others		
Hemlibra	12.9	+9.9 (+330.0%)
Tamiflu (govt. stockpiles)	3.2	+2.7 (+540.0%)
Tamiflu (ordinary)	3.4	-6.7 (-66.3%)
Renal diseases		
Mircera	20.5	-2.6 (-11.3%)
Oncology		
Perjeta	21.2	+5.1 (+31.7%)
Alecensa	25.1	+4.5 (+21.8%)
Tecentriq	13.1	+4.0 (+44.0%)
Tarceva	5.6	-2.7 (-32.5%)
Xeloda	9.4	-3.1 (-24.8%)
Herceptin	24.0	-4.1 (-14.6%)
Avastin	89.4	-6.2 (-6.5%)
Rituxan	13.5	-7.8 (-36.6%)

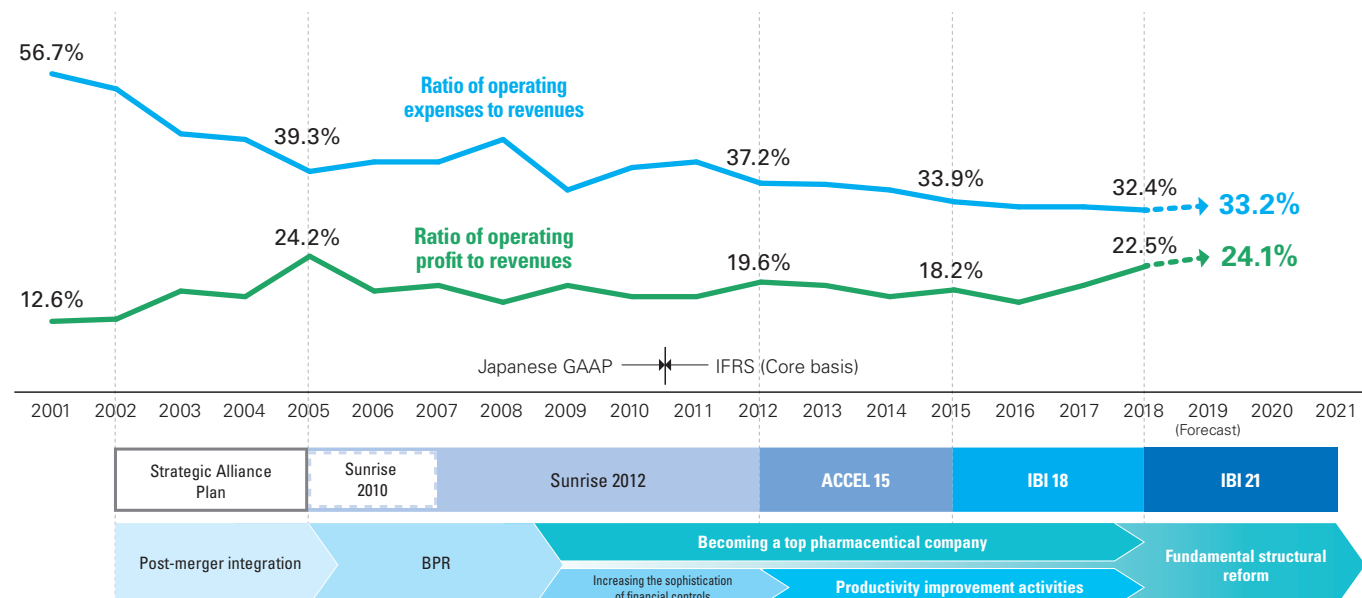
Japan was negative as increased sales volume did not fully offset the effects of drug price reductions and other factors, and we project that sales will decrease again in 2019. Other mainstay products that have contributed to growth up to now are also expected to face similar circumstances over the next few years. We will have to confront the increasing and intensifying severity of the domestic environment, and are nearing a crucial stage.

### Structural Reform and Business Process Improvements Remain Essential

Chugai's business model based on the strategic alliance with Roche has two engines. One is the revenue base in which we supply breakthrough drugs discovered by Chugai to the world using the Roche Group's infrastructure. The other is the revenue base in which we sell Roche products on an exclusive basis in Japan, along with Chugai products. We have

swiftly increased the horsepower of the first engine. We need to preserve the horsepower of both engines evenly to maintain their driving force, which enables us to push forward with innovation.

After the strategic alliance agreement, Chugai reduced the number of operating bases and divested non-pharmaceutical businesses. Since then, we have continued to implement cost optimization initiatives, including business process reengineering (BPR) and productivity improvement. The sales growth of Chugai products,

**Performance and Efforts**



particularly the expansion of exports to Roche, has boosted profitability, and Chugai's ratio of operating profit to revenues is now higher than the domestic industry average. Nevertheless, in order to continuously create innovative new drugs and services, we must achieve a higher level of profitability and productivity so that we can continue to generate cash for investing in innovation.

Accordingly, one of the strategies of IBI 21 is fundamental structural reform aimed at maintaining and improving the profitability and productivity of our domestic business. To that end, we will stay ahead of trends in the market environment, and conduct a complete review of systems, organizations, processes and resource allocation. In addition, we will work to improve productivity and increase liquidity costs with measures such as business automation using RPA and other ICT systems, as well as improvement of operational efficiency through shared services and business process outsourcing, and improvement of workflow utilizing AI and data.

## A Financial KPI Based on Our Business Model

In recent times, ROE has been emphasized in Japan from the standpoint of governance, but Chugai does not use ROE as a target KPI. A large portion of our business is biopharmaceuticals, which have a relatively lengthy manufacturing process, and we are required to 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 independent management in our alliance with Roche, we must keep Roche's equity share within a certain range, so it is difficult for us to reduce shareholders' equity with share buybacks and treasury share cancellation. Therefore, of the three components for raising ROE – profit margins, turnover and financial leverage – increasing margins in our core business is our main approach. The best indicator of sustained growth in absolute terms from the viewpoint of shareholders is Core EPS CAGR. We publicly disclose our target for Core EPS CAGR as our financial commitment.

Of course, we place priority on cost of capital. In developing mid- to long-term business plans, we set out our strategy by clarifying the gap between our targets and

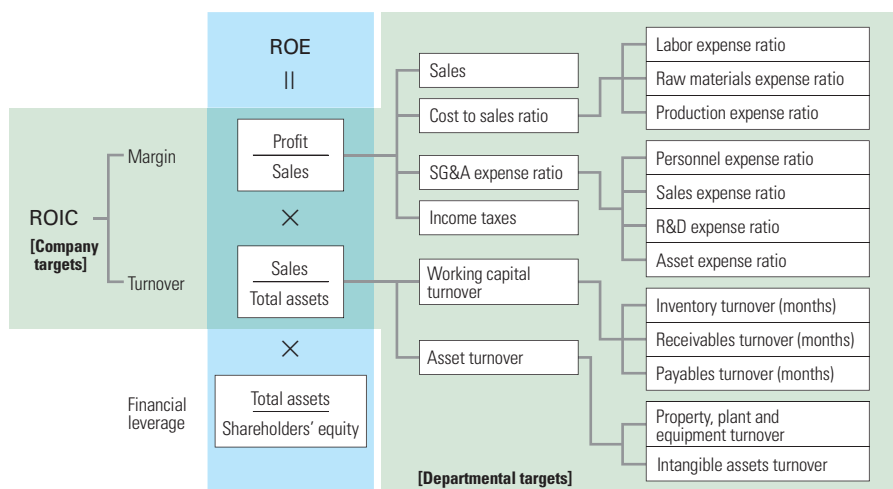
current conditions considering the capital spread. In assessing the business feasibility of investments and development projects, the concept of cost of capital is also built into our internal management decision-making processes and mechanisms in ways such as discounting present value at the WACC.<sup>1</sup> In addition, because of the need to consider both stock and flow, we began using ROIC<sup>2</sup> as an internal KPI in 2019. Goals cascade from Company-wide targets to division targets, and we are shifting to measurement management that gives greater consideration to investment efficiency and cost of capital.

## Focusing Resources on Investment in Innovation

In the creation of innovative drugs and services, it will be increasingly essential to achieve world-class quality. We have to prioritize investment allocation to ensure that funds do not run out. We will increase our investments in artificial intelligence, ICT and acquisition of real-world data. Investment in open innovation – alliances with academia and startups – will also be needed. Projects already under way include R&D using deep learning technology with Preferred Networks, Inc., and a data utilization project. Data utilization requires a considerable investment to build the infrastructure for integrating and coordinating internal and external data, and to acquire data analysis technology. We are also expanding our research in collaboration with Osaka University Immunology Frontier Research Center (IFReC), and we have decided to invest an additional SGD 282 million over the next five years in Chugai Pharmabody Research (CPR), our Singapore subsidiary that specializes in antibody research.

During IBI 18, we focused investment mainly on manufacturing facilities, but during IBI 21, we will ramp up investment in the area of drug discovery. Besides the investments I have already mentioned, a new synthetic research building is under

### Relationship between ROE and ROIC; ROIC Tree for Departmental Operations



1. Weighted average cost of capital; the most common method of calculating cost of capital. The weighted average of the cost of borrowing money and the cost of raising funds through equity.

2. Return on invested capital; indicates how efficiently a company uses capital invested for business activities (invested capital) to generate profit.

construction at the Ukima Research Laboratories. Moreover, in 2019 we will construct a new research laboratory on a 170,000 m<sup>2</sup> site in Yokohama, Kanagawa Prefecture that we acquired at the end of 2018.

What makes these investments in intellectual capital for future value creation possible is the profit and cash inflow from our highly efficient and productive sales activities. In allocating that profit, we try to maintain a good balance between internal reserves that serve as investment resources and returns to shareholders. Our dividend policy is to deliver stable dividends with a target Core EPS payout ratio of 50 percent on average.

## Deepening Dialogue with Society from the Perspective of Shared Value

Meeting the expectations of stakeholders by creating innovative pharmaceutical products and services is Chugai's Mission. Our thoughts and actions for fulfilling our Mission, and the results of those actions, are the only straightforward approach: when Chugai's financial value and social value rise, its corporate value – the sum of those two elements – increases. In that sense, the fact that Chugai's market capitalization at the end of December 2018 was the highest among the leaders in the Japanese pharmaceutical industry is proof that our

shareholders and other stakeholders understand and have positively evaluated our actions. This evaluation has reinforced our confidence and belief in the goals we are striving to achieve.

We will continue to strive for timely, appropriate information disclosure through various media, and will work to promote dialogue with stakeholders. In IBI 21, as reflected in our new slogan, "Creating shared value," we will take a more active approach to providing information about the value we share with society, namely, the issues we plan to engage with and solve. To that end, we invite you to share your thoughts and comments with us. Thank you.

### Current Status and Near-Term Plan of Major Investments

