Message from the CFO

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We are building the foundation for sustainable growth through further refinements in our unique cash generation cycle and a balanced allocation of capital. In addition to increasing our economic value, we will also pursue ESG initiatives and other programs to create shared value with society.

Global Growth by In-House Products Drove Earnings to an All-Time High for Fourth Consecutive Year

In 2020, we maintained our growth momentum and reported earnings at an all-time high for the fourth consecutive year, beating our initial forecasts with revenues of ¥786.9 billion (up 14.7 percent year on year, 6.3 percent above forecast) and Core operating profit of ¥307.9 billion (up 36.9 percent, 12.0 percent above forecast).

The global spread of COVID-19, which we did not anticipate at the beginning of the year, was a headwind to our business but also brought unexpected opportunities.

Due to voluntary restraints on marketing activities and patient reluctance to keep medical appointments, we saw a significant slowdown in market penetration by new product Hemlibra and new indications for Tecentriq. On the other hand, demand increased for Actemra in the treatment of COVID-19 associated pneumonia, and export sales to Roche and royalty income rose unexpectedly. In terms of costs, our spending was down for research meetings, lectures, and travel, giving us the opportunity to invest in remote sales & marketing and work-from-home (WFH). As a result of the offsetting positive and negative effects, the impact on 2020 earnings overall was relatively limited.

The year 2021 got off to an extremely challenging start as the state of emergency was reinstated in January. With the government's implementation of off-year drug price revisions in April and increasing market penetration by generics, domestic sales revenues are expected to decline for the second year in a row. In overseas markets, conditions remain severe due to a reduction in the number of patients keeping medical appointments and increased pressure on drug costs in the wake of the COVID-19 pandemic, but we expect exports of our in-house global products and royalty income to continue to drive earnings. Overseas sales revenues, which command high profit margins, will likely account for over 50 percent of total revenues for the first time. Our operating profit ratio is now at a high level even compared with global companies, as the ratio of operating expenses to revenues is falling due to ongoing restructuring and productivity improvements. This fiscal year is expected to be another record year, with revenues of ¥800 billion (up 1.7 percent year on year) and Core operating profit of ¥320 billion (up 3.9 percent), aiming for a Core operating profit to revenues of 40 percent.

Fixed-Period Mid-Term Business Plan Completed in 2020

Mid-term business plan IBI 21 started in 2019 and was completed one year ahead of schedule.

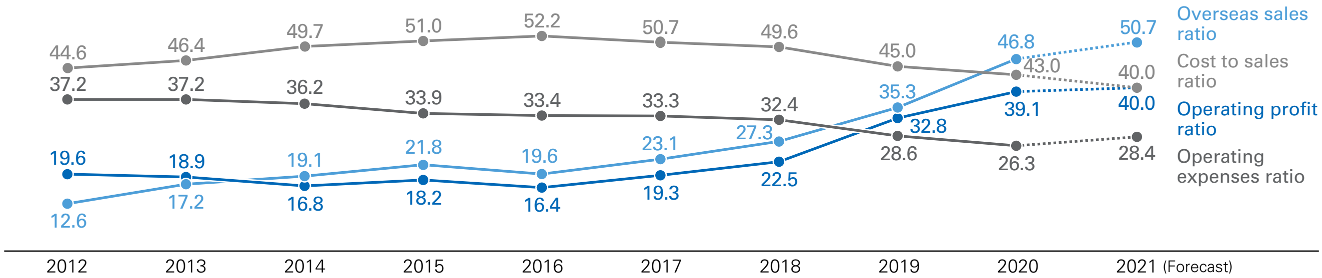
Our initial financial target was a Core EPS CAGR of 7–9 percent, but this was raised to around 30 percent at the start of 2020 due to strong market penetration by Hemlibra and Tecentriq. We beat this revised target as well in the second year, and based on the steady progress with qualitative targets, we expected to surpass the initial quantitative and qualitative targets by a wide margin in the third year. Looking back on the previous mid-term business plan, IBI 18, we also significantly exceeded the targets over its three-year period. This experience presented us with the opportunity to reconsider our fixed-term plans. Considering the speed and quality of changes in the business environment and in technological innovation are different from the assumptions made at the time of formulating business plans, we concluded that new strategies and targets that look even further into the future were needed.

For all these reasons, we decided to complete IBI 21 after only two years, and also to stop formulating mid-term business plans that cover fixed periods. Instead, plans will now be backcasted from the year 2030, when we aim to become a top innovator in the healthcare industry, in order to decide what we need to achieve over the next few years. The timing of key milestones will vary according to the issue or theme. We will summarize the plan as a schedule spanning a period of three to five years, revising this as needed based on the status of implementation and changes in the business environment. We believe that not only a bird's-eye view from above and a worm's-eye view from below, but also a fish-eye view is needed in order to give us the panoramic outlook to move freely with the flow.

This means we will no longer release mid-term business plans that remain in place even though they contradict what is actually happening inside and outside the Company. Now we will manage according to plans that are constantly updated in an event-driven and agile manner. Our financial plans will also be designed according to multiple scenarios and updated as needed to reflect changing factors that have a financial impact. These changes first emerge in pre-financial indicators. More information on this topic is summarized in the section on the relationship between pre-financial indicators and financial results on pages 34–35. Note that our basic policy on information disclosure will remain unchanged. We still disclose pre-financial information, such as our direction, risk factors, and progress in R&D pipelines, as

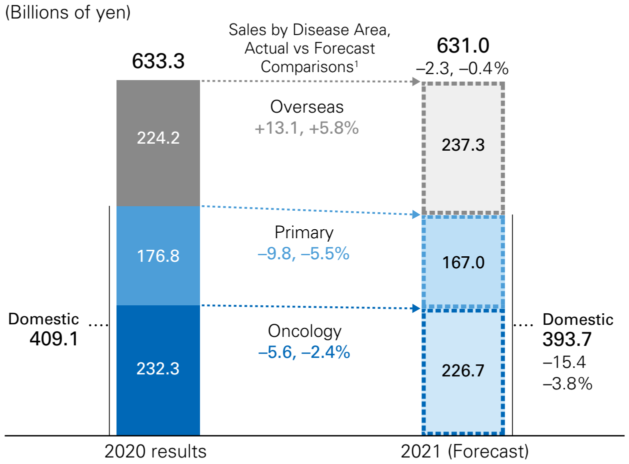
Earnings Structure

(%)



2021 Sales Forecast

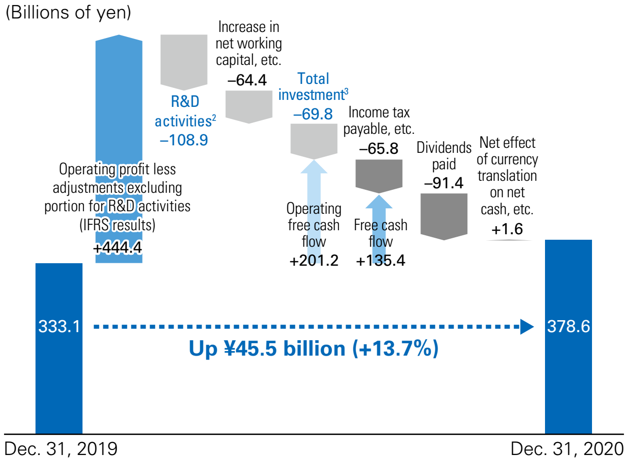
(Billions of yen)



1. From 2021, sales for Foundation Medicine, which were included in "Oncology" and "Others" until 2020, will be included in "Oncology." Also, sales for products included in "Bone and Joint," "Renal Diseases," and "Others" until 2020, will be included in "Primary" from the forecast for 2021.

Change in Net Cash between 2019 and 2020

(Billions of yen)



2. R&D expenses based on IFRS results, less depreciation and impairment losses related to R&D
3. Amount invested in property, plant and equipment, and intangible assets

well as detailed progress updates and financial forecasts for the next year. We will also increase opportunities for dialogue with stakeholders.

Refining Our Business Model and Allocating Capital to Strategic Areas

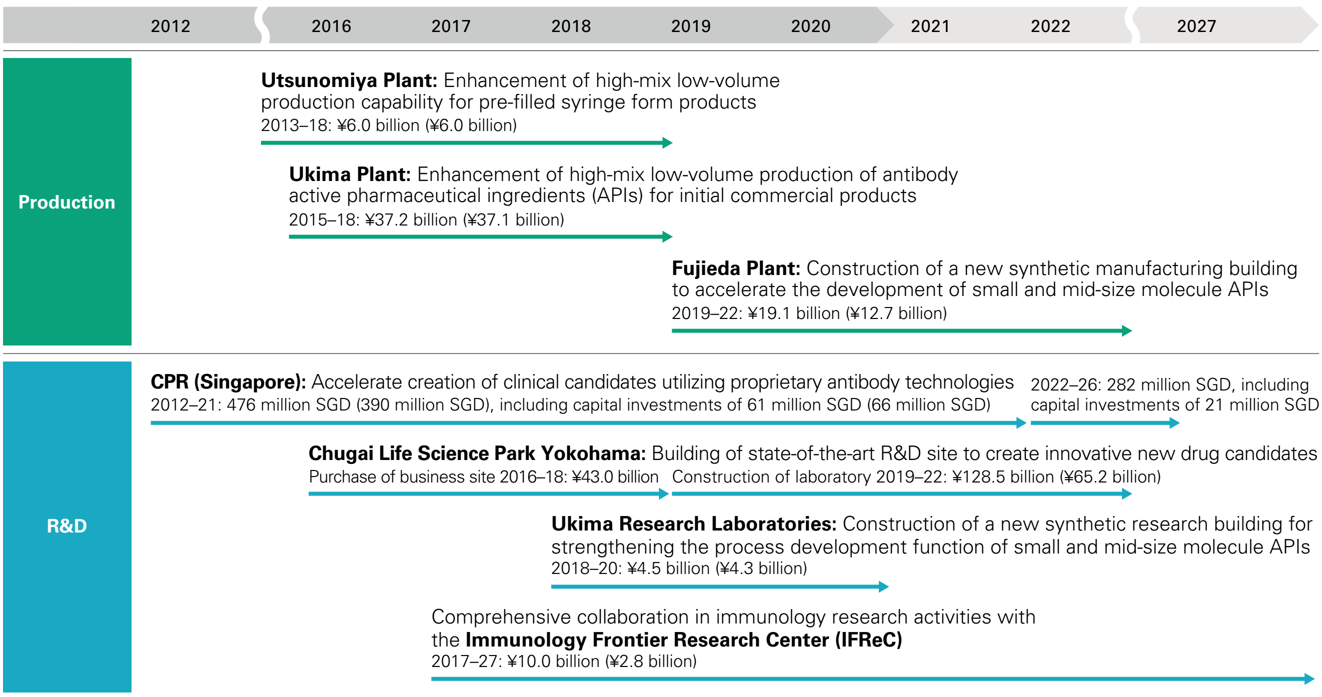
Chugai's business includes out-licensing, in which products from Chugai research are mainly delivered to the world through the Roche global network, and our own marketing operations, where we market in-house products and products in-licensed from Roche in Chugai sales territories (mainly Japan, South Korea, and Taiwan). By generating stable earnings through our own marketing operations and investing in the creation of innovative new drugs, we continue to expand our out-licensing business, allowing us to generate even more funding for innovation. This cash generation cycle is the business model we have built based on our strategic alliance with Roche.

Strengthening this cash generation cycle even further is the key to our financial strategy. In out-licensing, we need to achieve global growth for products discovered in-house, including Hemlibra and Enspryng, and make progress with nemolizumab, crovalimab, and other development projects in order to achieve successive launches of new products. It is also essential to further enhance our drug discovery technologies, including the establishment of mid-size molecule technologies and expansion of antibody engineering technologies. To maintain the innovative drug discovery capabilities we have developed thus far, it is vital that we pursue the Research & Early Development (RED) Shift, where we focus our limited resources in drug discovery, and Open Innovation, where we supplement any gaps in our business through in-licensing or outside partnering.

Thus far, we have pursued a program of cost optimization through a selection and concentration strategy, which included the transfer of long-listed products, the sale of or withdrawal from subsidiaries no longer compatible with our strategy, the outsourcing of packaging and logistics functions, and the consolidation of standard operations. Moving forward, we will make further improvements in efficiency and productivity in each function. In the production function, we aim to make operations more advanced and efficient by developing digital plants, starting with the UK3 project at the Ukima Plant.

Amid expectations that the domestic market will shrink, structural reforms in the marketing function, which is responsible for our own marketing business, is an urgent issue if we are to continue generating stable earnings. We will work to maintain productivity by building a new customer engagement model and reviewing sites, systems, and processes. For the R&D function, we will expand our digital platforms that can integrate and apply internal and external data, and develop next-generation laboratory automation that uses artificial intelligence (AI). We are ready to make a bold shift in capital allocation into the indispensable features of our

Current Status / Plan for Major Investments



Note: Figures in parentheses indicate cumulative amount at the end of December 2020.

new growth strategy, namely enhancing RED functions, building digital platforms, and acquiring new technologies and functions from outside of Chugai.

Regarding shareholder returns, we have set a target payout ratio of around 45 percent on average based on Core EPS, with the aim of maintaining a stable dividend that can withstand short-term fluctuations in profit levels.

Greater Understanding through Dialogue and Improved Management Based on External Evaluations

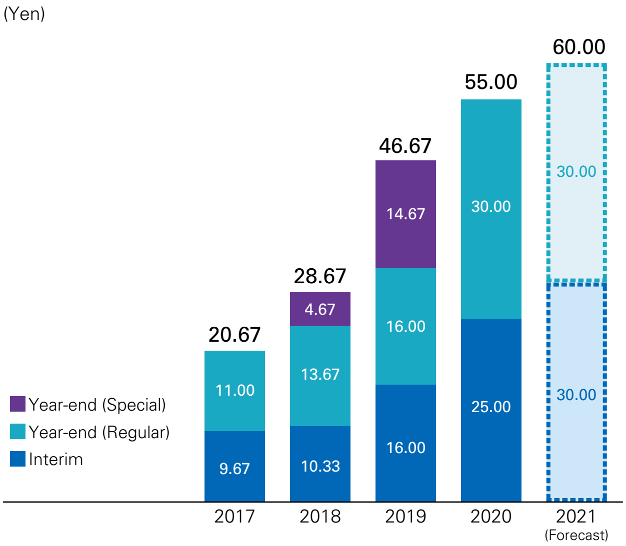
As a listed company, one of our main responsibilities is to improve capital efficiency. In 2020, we maintained high capital efficiency with Core ROIC significantly higher than the weighted average cost of capital (WACC)* at 37.3 percent.

Here, I would like to discuss the financial key performance indicators (KPIs) we consider important. The KPIs that we use as management indicators are revenues and Core operating profit over the short term, Core EPS growth rate over the medium term, and Core ROIC over the long term. While many companies use return on equity (ROE) as an indicator of capital efficiency, Chugai uses Core ROIC because we are subject to limitations on how we control total asset turnover and financial leverage as a large number of our products dominate the market and thus we have a social responsibility to constantly maintain stocks at a certain level. From the perspective of autonomy, we need to maintain Roche's shareholding at a certain level. Therefore, to improve ROE, we must improve the profit margin. For these reasons, we have set Core EPS CAGR, which shows sustained growth in the margin, as our medium-term financial KPI. As a long-term indicator, we have started to manage capital efficiency using ROIC based on the belief that it is essential to quantify investment efficiency over the long term in the pharmaceutical business, where activities are conducted in timeframes of a decade or more. We have also introduced methods that take into account cost of capital in our internal business decision-making processes and mechanisms, including discounting present value with WACC when assessing the business feasibility of investments and development projects.

From the perspective of increasing corporate value, reducing the cost of capital and invested capital are important themes alongside increasing profits. Investment in digital transformation (DX) and environmental, social, and governance (ESG) initiatives may put pressure on profits over the short term, but they will also reduce cost of capital and invested capital in the future, so we need to implement and control such programs in an integrated fashion, while also monitoring priorities. For example, we were quick to set the challenging environmental goal of zero CO_2 emissions by 2050. To achieve this, we will need to make substantial investments in equipment, facilities, and technologies. But we believe that this will create a positive cycle whereby society recognizes Chugai as a corporate citizen working to address social issues and endorses these activities, resulting in an increase in Chugai's social value. Chugai has been solving unmet medical needs by delivering breakthrough medicines and services, but has also been committed to other issues, such as global environmental problems, and has actively been taking the lead to address such social issues. In 2020, Chugai was selected for the first time for inclusion in the Dow Jones Sustainability Indices (DJSI) World, which is the world's leading ESG index. We cannot continue these initiatives without the support and understanding of all stakeholders, and we thank you for this support.

In 2020, we found new ways to continue the dialogue with stakeholders as we had done before the pandemic. We developed various methods to communicate, including remote briefing sessions with analysts and investors and socially distanced meetings that were also broadcast live to provide specific information on financial results, new products, and initiatives including DX and ESG. We obtained numerous suggestions from such meetings. In 2021, we will continue to disclose information in a transparent and fair manner and create opportunities for two-way dialogue. We very much look forward to hearing your views.

Changes in Dividends and Payout Ratio



Payout ratio	2017	2018	2019	2020	2021 (Forecast)
5-year average	48.4%	48.6%	47.4%	44.9%	43.8%
Single year	44.7%	48.7%	45.8%	41.2%	42.6%

Note: Chugai conducted a three-for-one stock split of common stock effective July 1, 2020. Dividends are calculated based on the assumption that the stock split was conducted at the beginning of 2017.

* The most common method of calculating cost of capital. WACC is the weighted average of the cost of borrowing money and the cost of raising funds through equity.