Chugai Strategy

CONTENTS

Overview of Mid-Term Business Plan IBI 18

INNOVATION BEYOND IMAGINATION

Quantitative Outlook

Core EPS CAGR
(2015-18)

Low single digit[1]

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

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

External Environment

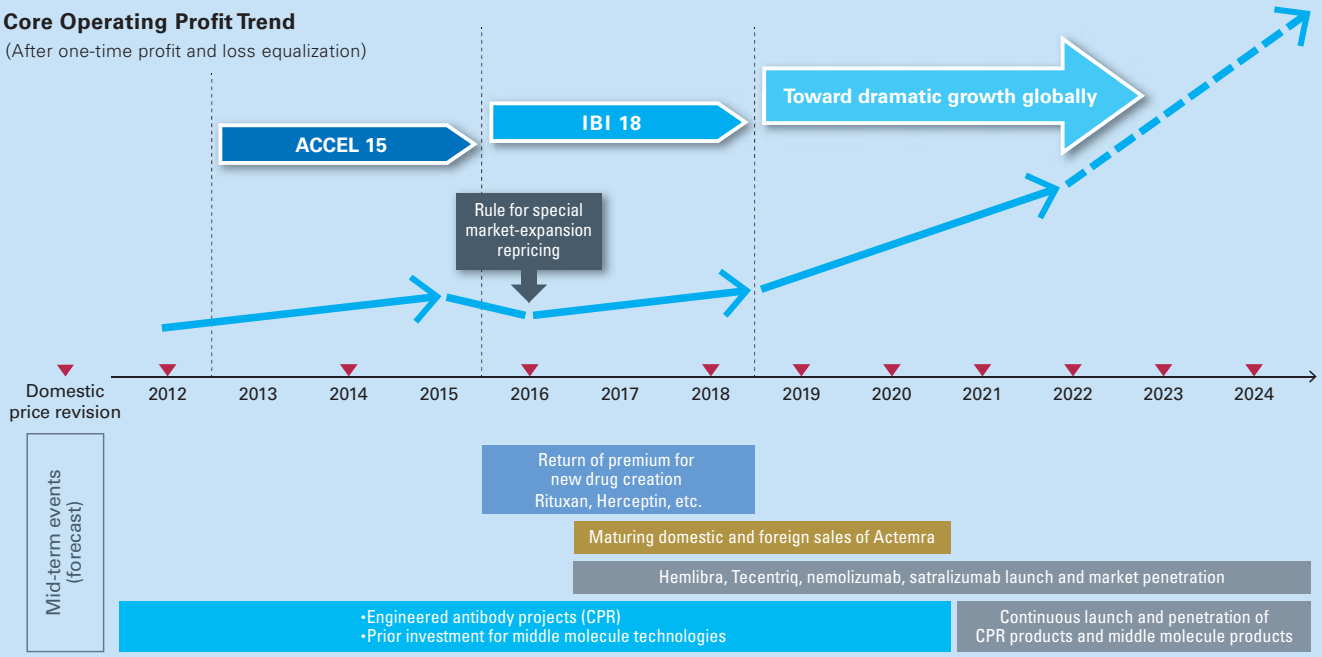
Opportunities	Risks
Global > Increasing importance of pharmaceuticals due to growth and aging of the global population > Expansion of opportunities to generate innovation based on advancements in life science and information and communications technology (ICT)	**Global** > Progress of measures to curb healthcare costs in various countries > Increasing competition in innovation among companies > Declining success rates and rising costs in research and development > Possibility that major pharmaceutical companies will launch biosimilars[2] > Dramatic changes in the competitive environment due to disruptive technologies and new entrants from different industries > Tightening of regulations for safety, quality assurance, marketing and other areas
Japan > Initiatives to promote development of breakthrough therapies, including establishment of the Sakigake designation system (fast-track review system) and the inauguration of the Japan Agency for Medical Research and Development	**Japan** > Strong pressure to contain drug costs with the rapidly aging population and financial difficulties (Revision of the NHI drug pricing system) > April 2016 introduction of a rule for special market-expansion repricing

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

Mid-Term Events and Performance Trend

Core Operating Profit Trend

(After one-time profit and loss equalization)



Priority Agenda of IBI 18

- Acquisition and implementation of competitiveness at a top global level
- Selection and concentration strategy for acceleration of growth

Drug Discovery	Development	Pharmaceutical Technology	Marketing & Sales/Medical Affairs/Drug Safety
● Continuous creation of engineered antibody projects ● Establishment of drug discovery technologies for middle molecules ● Strengthening of research base for oncology/immunology	● Acceleration of Hemlibra and Tecentriq as a top priority ● Realization of early PoC with TCR[3] ● Strengthening process for proof of medical/economic value	● Enhancement of CMC[4] development infrastructure for early PoC acquisition ● Strengthening competitive advantages from late development to initial commercial production ● Strengthening QA, QC and regulatory functions	● Realization of sales growth by concentrating on sales driver products, Hemlibra and Tecentriq ● Providing advanced solutions through cross-functional teams ● Establishment of system adapted to local characteristics
Company-wide			
● Acquisition, development and assignment of global top-class talent to lead value creation activities through innovation			

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

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

Priority Agenda for 2018

Continuous creation of innovative engineered antibody projects and establishment of drug discovery technologies for middle molecules

- Initiate clinical trials for two antibody projects: 2018-2019
- Further progress in middle molecule drug discovery: select a clinical drug candidate by the completion of IBI 18

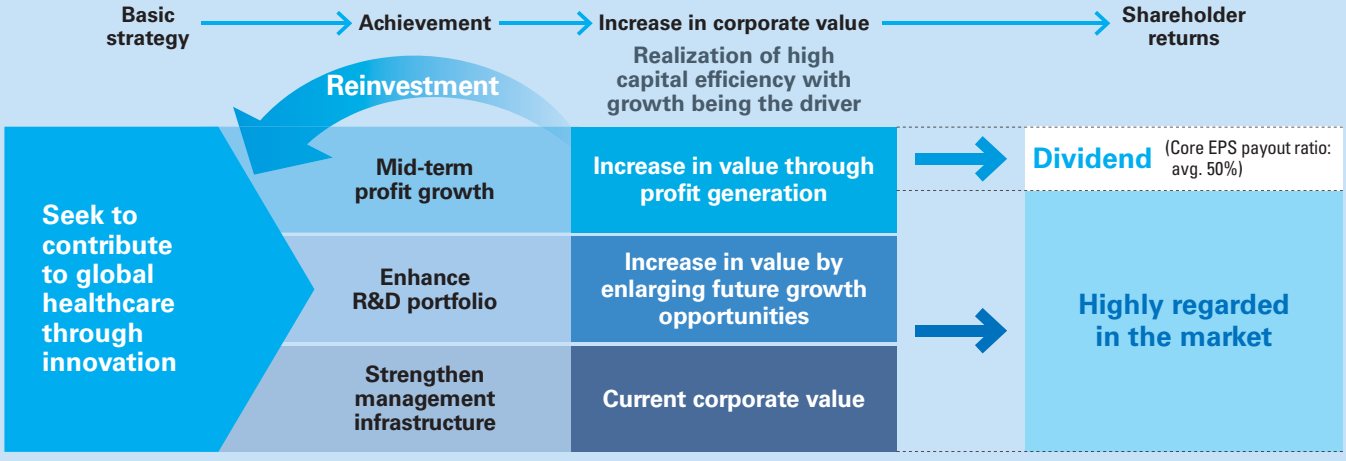
Secure development of growth-driver projects

- Regulatory filing for seven projects
  - Hemlibra: hemophilia A without inhibitors (Japan, U.S., E.U.)
  - Tecentriq: three line extensions (renal cell carcinoma (RCC), breast cancer, 1st line non-small cell lung cancer (NSCLC))
  - Actemra (systemic sclerosis), Avastin (RCC), Edirol (osteoporosis [China])

Strengthen the system for providing solutions and secure market penetration of new products

- Fastest maximization of value of four new products (Tecentriq, Alaglio, Hemlibra, obinutuzumab) and Perjeta line extension (adjuvant breast cancer)
- Hemlibra co-promotion in Europe
- Collaboration with Foundation Medicine Inc.: contribute to PHC with cancer genomic medicine as the No. 1 company in oncology

Basic Principles of Increasing Corporate Value and Shareholder Returns



CEO on Chugai's Strategy

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

The progress of IBI 18 has been remarkably smooth.

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

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

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

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

Strategically, we achieved an important milestone for future strong growth in the global market with the launch of Chugai product Hemlibra (ACE910), a top-priority project. Applications for regulatory approval of Hemlibra for the treatment of hemophilia A with inhibitors were filed in June in the United States and Europe, and in July in Japan. In November, it obtained approval in the United States, where it was launched for the first time in the world. Alecensa, another product from Chugai research, was initially launched in Europe in February for second-line lung cancer treatment, and was approved for the additional indication of first-line treatment in November in the United States and in December in Europe. Among products in-licensed from Roche, we filed an application in Japan for approval of anti-PD-L1 antibody Tecentriq in second-line treatment of lung cancer. This project uses cancer immunotherapy, which has gained attention as a new type of cancer treatment. Approval was obtained in January 2018.

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

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

Tatsuro Kosaka
Representative Director,
President & CEO

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

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

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

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

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

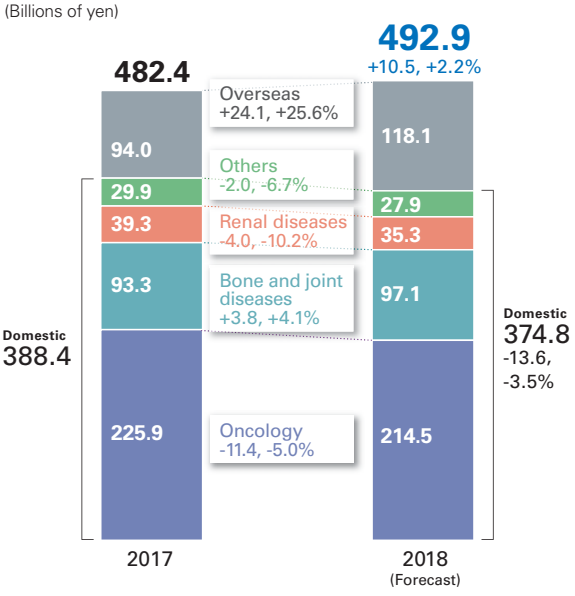
We expect to exceed the quantitative outlook of IBI 18 by a wide margin.

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

1. Based on average exchange rates for 2015

2018 Sales Forecast (Excluding Tamiflu)

(Billions of yen)



(Year-on-year percentage change)

Overseas		
Alecensa	26.4	+12.5 (+89.9%)
Actemra	73.0	+12.1 (+19.9%)
Hemlibra	2.0	-1.1 (-35.5%)
Renal diseases		
Oxarol	5.8	-2.4 (-29.3%)
Bone and joint diseases		
Edirol	31.7	+2.1 (+7.1%)
Actemra	35.2	+2.1 (+6.3%)
Bonviva	9.9	+1.2 (+13.8%)
Oncology		
Alecensa	22.7	+6.0 (+35.9%)
Alaglio	0.7	+0.7 (—)
Tarceva	9.8	-0.7 (-6.7%)
Avastin	92.0	-1.1 (-1.2%)
HER2 franchise	49.5	-5.7 (-10.3%)
Rituxan	23.4	-10.0 (-29.9%)

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

For dividends, we maintain our policy of targeting a Core EPS[2] payout ratio of 50 percent on average based on stable dividends, after taking into consideration strategic funding needs and the results forecast. In line with this policy, we declared total dividends of ¥62.00 per share for 2017, an increase of ¥10.00 from the previous year, for a payout ratio of 44.7 percent. We expect to keep dividends at ¥62.00 per share in 2018 and plan to use internal reserves to make efficient investments to explore future business opportunities, which will increase corporate value, leading to greater shareholder value.

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

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

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

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

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

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

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

1. Gain a position among the top three major Japanese pharmaceutical companies[1]

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

2. Gain the top share in our strategic disease areas in Japan[2]

Oncology	Ranked 1st	○

Other main areas in 2017: Renal (ESA): 2nd, Osteoporosis: 2nd, Rheumatoid arthritis: 3rd

3. Increase overseas revenues ratio

Overseas revenues ratio	23.1%	○

○ = Achieved △ = Almost achieved

1. Financial results: Chugai: 2017, other companies: Years ended December 31, 2016 or March 31, 2017
2. Copyright © 2018 IQVIA.
Source: JPM 2017.
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The scope of the market is defined by Chugai.
3. Calculated by Chugai, based on data from Fuji-Keizai Co., Ltd.

Progress of IBI 18

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

Drug Discovery

- Cutting-edge immunology research in comprehensive collaboration with IFReC
- Initiated clinical trials for two in-house engineered antibody projects
- Advancement in middle molecule drug discovery research

Development

- Hemlibra trilateral regulatory filing (U.S., E.U. and Japan) and U.S. approval
- Progress of Tecentriq development in multiple cancer types and approval in 2nd line NSCLC

Pharmaceutical Technology

- Progress in construction of high-mix low-volume production site for antibody API
- Completion of FDA pre-license inspection for Hemlibra and enhancement of QC, QA, regulatory system for global supply

Sales/Medical Affairs/Safety

- Established a new system for providing solutions initiated through collaboration of three divisions
- Area strategy scheme to meet diverse regional medical need