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.

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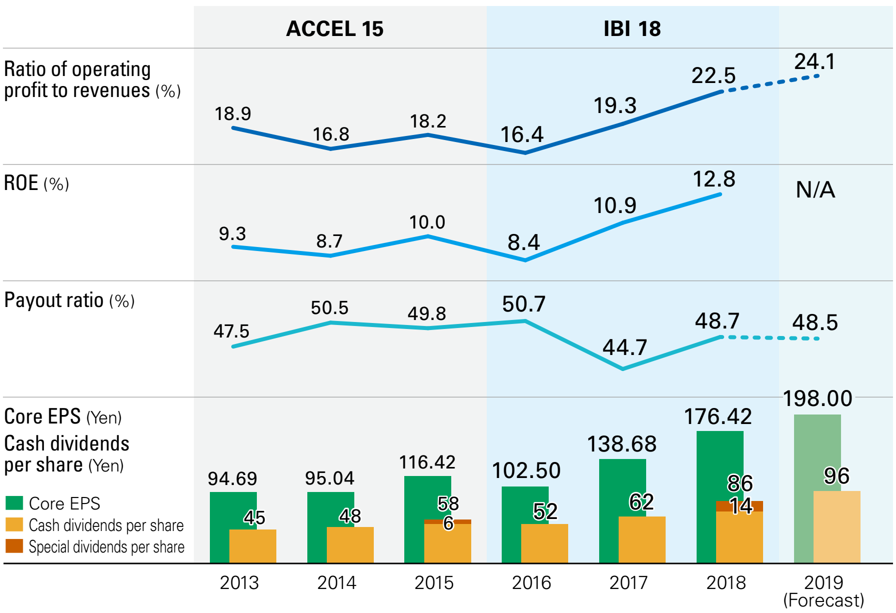
On a Strong Growth Track, But Level-Headed Analysis is Necessary

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.

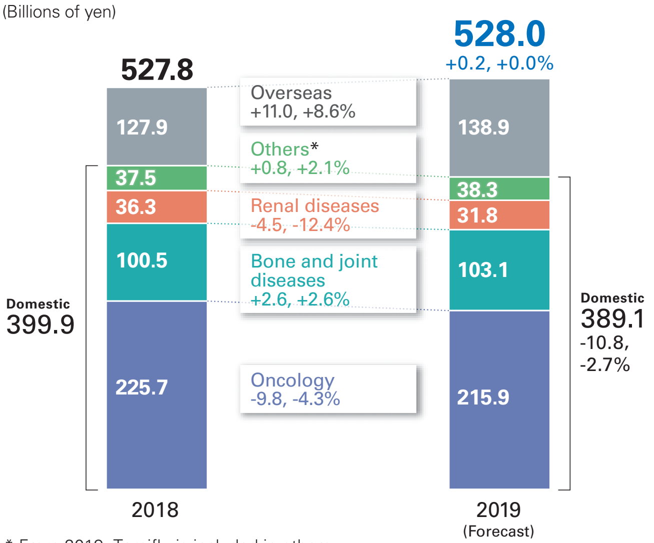
However, we cannot allow ourselves to become complacent. Level-headed analysis is needed. The primary reason we exceeded our financial targets is the growth of Chugai products Actemra, Alecensa and Hemlibra. These global products became growth drivers that expanded our export business. We expect them 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)



* From 2019, Tamiflu is included in others.

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%)

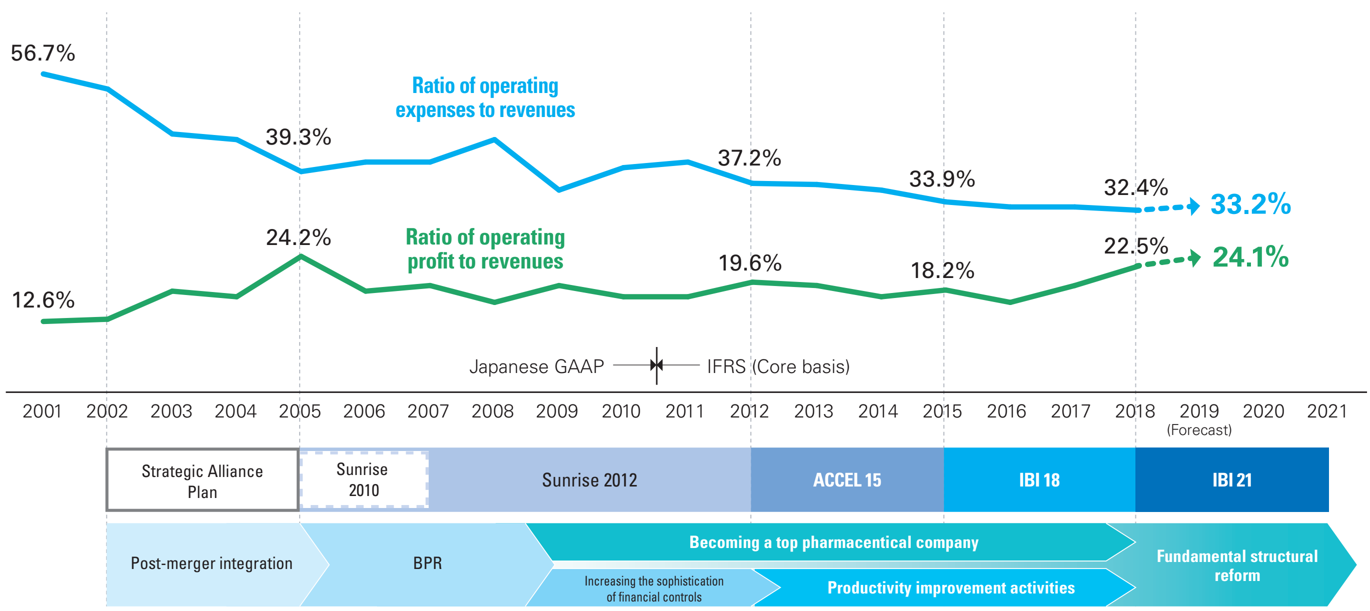
Japan was negative as increased sales volume did not fully offset the effects of drug price reductions and other factors, and we project that sales will decrease again in 2019. Other mainstay products that have contributed to growth up to now are also expected to face similar circumstances over the next 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.

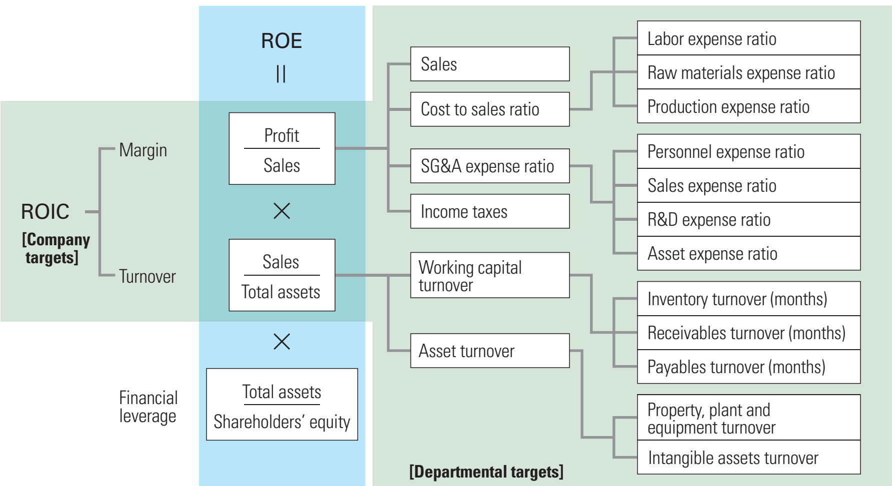
Accordingly, one of the strategies of IBI 21 is fundamental structural reform aimed at maintaining and improving the profitability and productivity of our domestic business. To that end, we will stay ahead of trends in the market environment, and conduct a complete review of systems, organizations, processes 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.[1] In addition, because of the need to consider both stock and flow, we began using ROIC[2] 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.

Relationship between ROE and ROIC; ROIC Tree for Departmental Operations



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

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^2 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