

Message from the Chairman



At Chugai, our Mission is at the core of everything we do, and through our efforts to fulfill it, we will increase our corporate value.

Going forward, we will put more emphasis on ESG issues while evolving our governance system and taking steps to enhance our communication with stakeholders.

Osamu Nagayama

Representative Director & Chairman

Corporate Value and Governance

The importance of corporate governance has gained renewed attention in Japan in recent years. The Corporate Governance Code of the Tokyo Stock Exchange was revised, and among the issues currently being debated are the effectiveness of governance, the diversity of directors (including the percentage of outside directors on boards), clarification of criteria for CEO appointment and dismissal, and enhancement of succession plans.

In Chugai's governance, it is crucial that we evolve and properly operate the governance system we have established. Our guiding principle in doing this is Chugai's Mission, which defines the purpose of our business activities.

Chugai's Mission is to "Dedicate itself to adding exceptional value through the creation of innovative medical products and services for the benefit of the medical community and human health around the world." It is at the core of everything we do, and through our efforts to fulfill it we aim to increase our corporate value. That is Chugai's fundamental management objective. Corporate value ultimately must stand up to economic and quantitative evaluation. That's because, while corporate value incorporates various perspectives, since business activities are involved, providing returns to shareholders and other stakeholders is a critical responsibility.

Fulfilling Our Mission

Corporations exist side-by-side with various frameworks and relationships in society. In accomplishing their missions, they must abide by various regulations and fulfill responsibilities, and are required to follow certain rules while striving for economic efficiency in their business activities. Ensuring that they meet these requirements is the essence of governance. The Chugai Group Code of Conduct spells out the rules we must

follow, and is the evaluation standard for decisions in all our activities. Thorough compliance with the Code of Conduct supports Chugai.

So what is the key to fulfilling Chugai's Mission? The answer is innovation. Expectations and the need for pharmaceuticals are increasing due to advances in life science and technological innovation. Developing new drugs requires substantial investment in research and development, and pharmaceutical companies are facing the universal challenge of how to continuously generate the capital necessary for strategic investment. However, the trend of drug price reductions as part of measures to curb social security costs is expected to continue, and only medicines that offer truly innovative value will be successful in the market. Only companies that can contribute to society's development and meet medical and health needs through continuous innovation will be able to sustain growth.

Features of Chugai's Governance

To support continuous innovation, Chugai began a strategic alliance with Roche in 2002 and built its current business model. This alliance, in which Chugai is a member of the Roche Group while maintaining autonomy and management independence, also lends significant distinctive features to our governance.

As long as we maintain our stock listing, it is important that we ensure fair treatment of all our shareholders. Basing our decision-making on the interests of Roche, the controlling shareholder of Chugai, would negate the purpose of the business model. Chugai must always consider the interests of minority shareholders to the maximum extent possible and pursue business activities that do not harm those interests.

For this reason, Chugai's Board of Directors is divided equally into three

types of directors: executive directors, non-executive directors from Roche, and independent outside directors. Each type consists of three people. I think this is a balanced composition that ensures fair treatment of minority shareholders while securing expertise and objectivity.

Another feature is that we have established the Chugai International Council (CIC), an advisory body composed of 10 experts and professionals from global business and the healthcare industry, to provide outside perspectives. The members of the CIC express their views and discuss matters such as Chugai's future direction. I believe we benefit immensely from being able to obtain advice from broad, fresh perspectives.

Focal Points of Discussion in the Board of Directors

The Board of Directors supervises business execution aimed at achieving Chugai's Mission through innovation. It deliberates and approves yearly plans and medium-to-long-term strategies, and monitors their progress. The board also receives timely reports in a number of important areas such as personnel systems and human resource development, and examines and discusses them. What we focus on here is whether activities in these areas have a scientific basis. We believe that it is Chugai's duty to conduct not just research and development but all of its business operations based on science.

In addition to supervising business execution, the Board of Directors also focuses on discussing future trends in healthcare as a whole and technological innovation. Healthcare five to ten years in the future will certainly be different from how it is now. As new methods of treatment, drug discovery modalities, and groundbreaking life science technologies emerge, it will be important for the board to assess Chugai's current technologies and consider the timeline for and extent to which it should prepare for future technological innovation.

Further Evolution of Governance

As I have already mentioned, there is no ideal form of governance. It must continuously evolve.

We have examined areas for improvement through evaluations of the effectiveness of the Board of Directors, and made improvements in the board's operation. The results of evaluations during the past three years show that a certain level of effectiveness has been secured, but we need to do more.

In particular, we will emphasize the ESG perspective, expanding the scope of our contributions and supervising execution and making decisions from the standpoint of contributing to society as a whole. In our social action programs, for instance, we intend to take a more proactive approach rather than simply doing what society asks us to do.

Evolution is also needed in stakeholder engagement. For example, our dialogue with shareholders and investors has largely focused on topics such as business plans and their progress, but recently we have been receiving more requests for dialogue on governance, including supervision by the Board of Directors. We will respond to such changes appropriately in our efforts to engage stakeholders in an active dialogue.

Through its constant pursuit of innovation, Chugai will work to further increase its corporate value to fulfill its Mission. Thank you for your continued support.