

Enhancement of Corporate Governance

Message from an Outside Director

Dr. Mariko Y Momoi

Independent Outside Director

Professor Emeritus of
Jichi Medical University

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Regent of Tokyo Medical University
(Part-time)



Shaking Up Default Thinking

I was appointed as an independent outside director in March 2020. I am a complete outsider in the world of corporate management and the pharmaceutical industry, but I appreciate that my role is that of an outsider, providing opinions from the perspective of medical science and a physician. People tend to make immediate judgments based on the “default settings” in their brains. As these default settings are developed through experience and intuition, when the defaults become assumptions, errors are more likely to come into play. The same is true for organizations. If the default settings of a group are uniform, unconscious assumptions can have far-reaching consequences and also make it difficult to change mindsets. This is precisely why diversity is so important in organizations. Chugai is a talented organization capable of shaking up such default thinking. I am convinced this is why the Company has achieved such outstanding results. Even though my comments at Board of Directors meetings and other events tend to be about elementary or even irrelevant matters, I believe that I am fulfilling my duties to help increase corporate value if these discussions can be used as a springboard to shake up customary ways of thinking.

Three Issues That May Support Further Evolution

Going forward, I would like to focus on three issues. The first issue is to enhance public awareness of Chugai’s excellent corporate philosophy and culture. Chugai continues to take on the challenge of, and generate successes with, the discovery of innovative new drugs. However, as the products that Chugai creates are used in highly specialized medical treatment, the excellent corporate culture that produces them is not well known by the general public. By sharing its Envisioned Future as a top innovator more broadly with society, Chugai can promote (1) a better understanding of the needs of patients who hope for the development of new treatment methods, (2) information sharing with healthcare professionals in a wider range of therapeutic areas, and (3) the recruitment of talented employees looking to take on

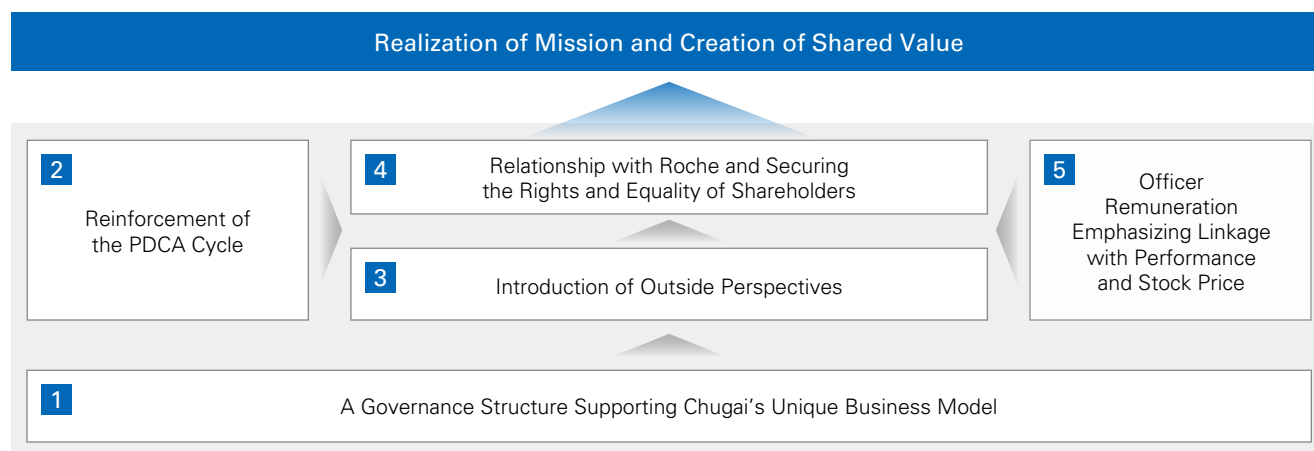
these challenges. Such communication can be meaningful for a company as it helps to foster expectations from society.

The second issue I want to highlight is improving workplace happiness for all employees. The 2020 employee awareness survey showed positive results compared with global companies, but if Chugai is to progress further, it is important for employees to feel that problems are improving consistently. I hope to see and confirm that employee feedback is reflected in constant improvements such as efficient operations, information sharing beyond divisions and departments, necessary support, management of workloads to appropriate levels, and leadership development. I am particularly excited about the new TOP I 2030 growth strategy, and I think that sharing the excitement felt by all employees will be the foundation for further growth in corporate value.

The final issue is risk monitoring. When the new growth strategy was formulated, Chugai developed a Risk Appetite Statement and revised the risk map that extracts and visualizes risks from multiple perspectives. I look for Chugai to focus on responding rapidly to various risks.

Chugai is a company that conducts sound and ambitious management with determination and motivation, while sharing a clear vision with all employees. Not satisfied with its recent performance, Chugai has a strong sense of urgency from a long-term perspective and is determined to continue making rapid progress. At the same time, Chugai combines this outlook with a serious and steady approach, including careful risk assessment and sincere efforts to address internal and external feedback.

I will work to fulfill my role as an outside director, supporting Chugai in its goal of increasing corporate value even further for all stakeholders, including investors, shareholders, the medical community, employees, and patients.



Chugai's Corporate Governance

Chugai's Mission is to dedicate itself to adding value by creating and delivering innovative products and services for the medical community and human health around the world. Under this Mission, Chugai aims to achieve the advanced and sustainable patient-centric healthcare set forth in its Envisioned Future through the creation of shared value with its various stakeholders.

To create this shared value, Chugai considers it important to establish and evolve its unique system of corporate governance, which is an integral part of management. We reflect this approach by identifying five priority issues.

1 A Governance Structure Supporting Chugai's Unique Business Model—a prerequisite for all that follows. It is essential for value creation. Under its strategic alliance with Roche, one of the world's largest pharmaceutical companies, Chugai is a member of the Roche Group, but at the same time maintains autonomy and management independence as a separate listed company. Chugai pursues management that fulfills the mandate of its many stakeholders appropriately and fairly. Director composition and monitoring mechanisms are also based on this mindset. Furthermore, demonstrating the true value of this unique business model to generate innovation is a key requirement of management.

2 Reinforcement of the PDCA Cycle—a core responsibility of management. Chugai constantly implements the PDCA cycle to continuously examine and improve corporate governance in order to increase corporate value.

3 Introduction of Outside Perspectives—important for ensuring a stakeholder viewpoint and objectivity in order to create shared value with stakeholders under this unique business model.

4 Relationship with Roche and Securing the Rights and Equality of Shareholders—a priority issue for properly ensuring the interests of minority shareholders as well as Roche, the majority shareholder.

5 Officer Remuneration Emphasizing Linkage with Performance and Stock Price—indispensable for improvement and evolution with regard to the first four issues. The following pages explain Chugai's corporate governance in terms of these priority issues.

Chugai continuously verifies and reviews the status of compliance with each principle of the Tokyo Stock Exchange (TSE)'s Corporate Governance Code. The item indicated below has not been implemented, the reason for which is also disclosed on the Company's website and elsewhere.

Principle 4.10.1: Establishment of independent advisory committees. Chugai's Compensation Committee consists solely of non-executive directors, including one or more independent outside directors. Therefore, Chugai believes that the current mechanism enables transparent and objective deliberation on compensation.



Corporate Governance
<https://www.chugai-pharm.co.jp/english/profile/governance/>

General Meeting of Shareholders

3 4 Appointment Committee Compensation Committee

1 Board of Directors Members of the Board

5 Audit & Supervisory Board Audit & Supervisory Board Members

CEO

2 Executive Committee

CIC¹

9 Corporate Communications Committee Risk Management Committee Compliance Committee EHS Committee²

Executive Officers Operating Organizations

6 Audit Department

7 Accounting Auditor

8 Cooperative Auditing

Chugai established the CIC as an advisory body composed of Japanese, American, and European industry leaders and professionals in various sectors to respond accurately to changes in the global business environment and conduct business in an appropriate manner, and to provide advice to further enhance decision-making.

1 Board of Directors: Makes decisions on management issues of primary importance, receives quarterly reports on the state of business execution as well as reports on key decisions made at the Executive Committee, and conducts oversight.

- Chair: Executive Director
- Composition: 9 members (3 executive directors, 6 non-executive directors (including 3 independent outside directors))
- Convened: 9 times in 2020

- Composition: 14 members (3 directors, 10 executive officers (excluding directors), 1 head of division)

3 Appointment Committee: As an advisory body to the Board of Directors, deliberates on the selection of director candidates and succession plans for or dismissal of executive directors, including the CEO. Members from inside the Company are appointed by the Board of Directors from among the representative directors and persons with experience as representative directors. Members from outside the Company are appointed by the Board of Directors from among the non-executive directors and persons with experience as non-executive directors.

- Chair: Independent outside director
- Composition: 4 members (1 executive director, 3 non-executive directors (including 2 independent outside directors))
- Convened: 3 times in 2020

remuneration policy and the remuneration of individual directors. It consists solely of members from outside the Company, appointed by the Board of Directors from among the non-executive directors, including outside directors, and persons with experience as non-executive directors.

- Chair: Non-executive director
- Composition: 3 members (3 non-executive directors (including 1 independent outside director))
- Convened: 2 times in 2020

- Composition: 5 members (2 full-time members, 3 outside members (all 3 of whom are independent Audit & Supervisory Board members))
- Convened: 11 times (including 1 extraordinary meeting) in 2020

as the effectiveness, efficiency, and compliance of business activities; reports and makes recommendations to the Executive Committee; and reports to the Audit & Supervisory Board. In addition, Audit Department staff serve as Audit & Supervisory Board members at subsidiaries.

8 Cooperative Auditing: Audit & Supervisory Board members, the Audit Department, and the Accounting Auditor cooperate closely by regularly exchanging information to improve the effectiveness of their respective audits. Audit & Supervisory Board members and the Accounting Auditor confirm each other's audit plans and hold regular meetings to exchange opinions on matters including the results of quarterly audit reports. In addition, they coordinate with Audit & Supervisory Board members at subsidiaries on quarterly reports, fiscal year-end reports and other matters.

9 Corporate Management Committees: The Corporate Communications Committee makes decisions and oversees promotion of activities regarding information disclosure and dialogue with stakeholders; the Risk Management Committee oversees risk management and promotes activities to identify and measure major risks; the Compliance Committee reinforces the PDCA cycle for compliance activities and monitors the implementation of countermeasures and the status for particular items; and the EHS Committee works to integrate management of environment and occupational health and safety issues by making decisions, formulating strategies and overseeing the activities of each department. Collectively referred to as the corporate management committees.

1 A Governance Structure Supporting Chugai's Unique Business Model

In order to promote Chugai's unique business model while ensuring its effectiveness, we separate management decision-making (Board of Directors) and business execution (Executive Committee and others), thereby expediting business execution and clarifying executive responsibility.

Composition of the Board of Directors

To demonstrate the true value of its unique business model, Chugai's Board of Directors comprises three types of directors: executive directors, independent outside directors, and non-executive directors. The balance of experience among directors of each type enables effective corporate governance that ensures management autonomy as an independent publicly listed company within the Roche Group, and helps to increase corporate value.

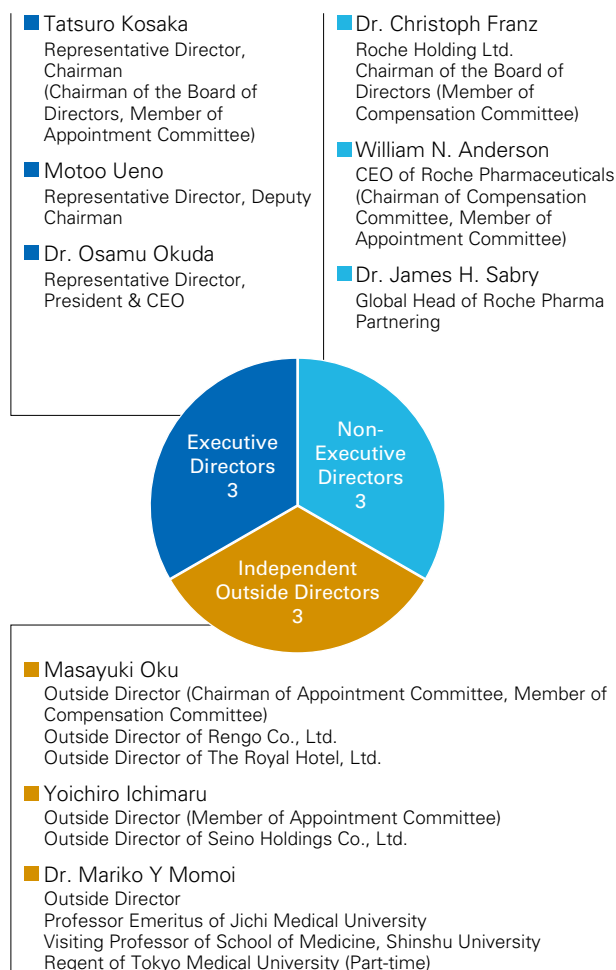
Executive directors are responsible for business execution and supervision, report on and explain business execution matters,

and hold discussions on management. They execute the strategies decided in Board of Directors meetings. Currently, three executive directors are representative directors. Independent outside directors are appointed based on their knowledge and expertise as outside corporate executives or as medical, academic and other professionals. Their role is to provide advice concerning management, exercise supervisory functions and participate in discussions and decision-making at Board of Directors meetings from an objective, outside perspective. Other non-executive directors are appointed from the management team of the Roche Group. They provide an objective, expert perspective from a standpoint that is independent from business execution, offer recommendations and advice regarding strategies and management, and participate in discussions at Board of Directors meetings.

Results and Progress in 2020

At the General Meeting of Shareholders held on March 30, 2020, proposals were approved for the retirement and appointment of new members for one executive director, one independent outside director, and one independent outside Audit & Supervisory Board member (Dr. Osamu Okuda, Dr. Mariko Y Momoi, and Kenichi Masuda were newly appointed). Dr. Mariko Y Momoi, who was newly appointed as director, has extensive experience and knowledge as a physician and university professor, as well as organizational management experience, including at universities and hospitals. Consequently, Chugai has determined that she is qualified to appropriately provide advice and oversight on the Company's management. Kenichi Masuda is a registered attorney with extensive experience and knowledge as an expert in corporate law, and Chugai determined that he is qualified to appropriately perform his duties as an outside Audit & Supervisory Board member.

Composition of the Board of Directors in 2021



Regarding the appointment of representative directors, by resolution of the Board of Directors following the General Meeting of Shareholders held on March 30, 2020, former President Tatsuro Kosaka became Representative Director, Chairman & Chief Executive Officer (CEO), while former Executive Vice President Dr. Osamu Okuda was appointed Representative Director, President & Chief Operating Officer (COO). Additionally, by resolution of the Board of Directors meeting held on February 4, 2021, Dr. Osamu Okuda was appointed CEO effective March 23, 2021. Tatsuro Kosaka as Representative Director and Chairman retains the position of Chairman of the Board of Directors.

These changes were agreed upon by the Appointment Committee, which is chaired by an outside director, on the basis of ongoing discussions and consultations on the succession plan. This is based on the belief that it is important to realize a smooth generational change in the management team for sustainable development and growth, and to further increase corporate value. Going forward, the Appointment Committee

intends to continue with the formulation and discussion of successor development plans.

In addition, we have examined and reviewed support for a series of external international initiatives. In February 2020, we

announced our support for the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Decisions on matters relating to climate change are overseen and deliberated by the EHS Committee, with final decisions made by the Executive Committee.

Message from the Chairman of the Appointment Committee

The succession planning process for developing and selecting the next CEO functioned well this time, but now we need to develop the next generation of leaders.



Masayuki Oku

Independent Outside Director
Chairman of Appointment Committee

Chugai's Appointment Committee deliberates and reports to the Board of Directors on the selection of director candidates and succession plans for or dismissal of executive directors, including the CEO, as well as the status of talent within the pool of Chugai employees. Input from external consultants may also be considered, particularly for the selection of top executives. The committee also discusses reports on the main operating systems in business execution, including its executive officers. As well as these committee-based activities, members of the Appointment Committee work to get to know potential candidates for leadership and executive roles from multiple perspectives, in terms of what they say or how they conduct themselves, as well as through exchanges of opinions and discussions at social gatherings and various meetings, including those of the Board of Directors, Annual General Manager / Manager Meeting, and Executive Study Groups.

To select and develop successors for management roles, we focus on two perspectives in particular.

The first perspective is the continued evolution of our distinctive business model concerning our unique strategic

alliance with Roche. Companies often talk about win-win relationships, but they are not easy to build. Chugai's management team must understand the essence and the practicalities of Roche's thoughts and ideas, and we think it is important that successors for executive roles have experience in this regard, for example, through collaborating with or working in management roles at Roche. The same is true for the next generation of directors and senior management. During my career in business management, I was able to gain experience in developing strategic alliances with external companies. This experience showed me that successful partnerships are based on mutual and in-depth understanding at all levels.

The other perspective is diversity. As Chugai accelerates programs to promote diversity in terms of gender or nationality, the Company's thinking on the composition of directors will change according to the needs of the industry or business characteristics. It is important to develop and steadfastly execute succession plans through deliberations over the future management of the Company and the type of management team required.

In March 2021, Dr. Osamu Okuda stepped into the role of CEO after he was appointed as Representative Director and President the previous year. We believe we achieved a seamless transfer of leadership and were able to provide exactly the right development program for the succession. Our planned (strategic) succession management process succeeded because it allowed Dr. Okuda the opportunity to experience various aspects of management, including involvement in strategy formulation, business management, and negotiating with Roche.

As a listed company, we need healthy succession in our top executive team to enable the Company to continuously innovate and reward our shareholders. However, we do not necessarily know exactly when a change of leadership will happen. I liken company management to a never-ending relay race. During a relay, each stage presents different challenges in terms of distance or terrain, and we need to choose the best person for that particular stage, someone who can carry the baton forward and then pass it on. Company management is the same. The business environment, growth phase, or challenges facing the Company at the time will be decisive factors when making decisions on who should fill leadership positions and how long they should serve.

Looking ahead, therefore, we now need to focus on the post-Okuda era, developing leaders for the future. It is often said that you need to start thinking about the next successor as soon as an executive takes over the top role. As president, Dr. Okuda was responsible for defining the top innovator vision and the 10-year value creation strategy. We need to identify the best candidates for future executive roles and develop them through exposure to various opportunities. In an increasingly uncertain future, the Appointment Committee will play an even more important role with a greater focus on objectivity, transparency, and risk perspectives. We will create more diverse and multifaceted opportunities for members of the committee to come into contact with potential leadership candidates in natural and unforced settings and be even more proactive in our contributions to the development of management successors.

Principal Matters Deliberated by the Board of Directors

Matters Concerning the General Meeting of Shareholders	<ul style="list-style-type: none"> • Calling of the General Meeting of Shareholders and determination of the agenda items • Approval of the Business Report, financial statements, and other documents • Selection of director and Audit & Supervisory Board member candidates
Matters Concerning Directors and Audit & Supervisory Board Members	<ul style="list-style-type: none"> • Selection and dismissal of representative directors and executive directors • Directors' remuneration • Selection and dismissal of executive officers and advisors • Selection of Appointment Committee and Compensation Committee members
Matters Concerning Stock	<ul style="list-style-type: none"> • Payment of interim dividends • Allocation of restricted stock • Implementation of stock splits
Matters Concerning Management in General	<ul style="list-style-type: none"> • Formulation of plans and policies, and reports on their progress • Discussion of new business plans, alliances, and other matters • Discussion of decision-making structure and organizations • Matters concerning finance and assets
Other Matters	<ul style="list-style-type: none"> • Approval and reporting of competing transactions • Approval and reporting of conflict of interest transactions • Reporting on internal control, risk management, and IR activities • Implementation and reporting of evaluation of the effectiveness of the Board of Directors • Status of voting on proposals at the General Meeting of Shareholders • Verification of cross shareholdings

Principal Matters Deliberated by the Executive Committee and Corporate Management Committees (2020)

Executive Committee	<ul style="list-style-type: none"> • Management policy, medium- to long-term strategy, and other key policies • Medium- to long-term and annual business plans • Key policies relating to company-wide business execution • Policy on issues of management strategy • Key matters in company-wide control and coordination • Key policy matters relating to HR development, appointment, individual personnel matters, and allocation • Matters relating to organizational performance evaluation systems • Other key matters relating to general corporate management
Corporate Communications Committee	<ul style="list-style-type: none"> • Formulation of policy on corporate information disclosure (company-wide communications) to internal and external stakeholders • Decision on corporate communications strategy and policy on risks impacting corporate value and reputation
Risk Management Committee	<ul style="list-style-type: none"> • Deliberation and proposal of risk management policy • Maintenance and monitoring of risk management system • Submissions and reports on risk management to the Board of Directors and Executive Committee • Deliberation and decision on the establishment of risk response subcommittees and the Emergency Headquarters
Compliance Committee*	<ul style="list-style-type: none"> • Formulation and evaluation of key measures relating to compliance promotion and monitoring of their progress • Assessment of compliance risk and formulation of countermeasures • Analysis of cause of compliance infringements or other compliance issues and exploration of measures to prevent recurrence (in cooperation with the Risk Management Committee) • Revision of compliance-related regulations
EHS Committee	<ul style="list-style-type: none"> • Key policies and measures relating to environmental protection and health and safety activities

* Made up of the Corporate Meeting, Healthcare Meeting, and GxP Meeting

2 Reinforcement of the PDCA Cycle (Items Revised in 2020)

Chugai has focused on evaluation of the effectiveness of the Board of Directors and improvement activities based on evaluation results since 2015.

Results and Progress in 2020

Effectiveness evaluation is carried out every year in February and March in the form of a self-assessment survey for those currently serving directors and Audit & Supervisory Board members who were in office during the applicable period. The results are discussed following a report from the Secretariat of the Board of Directors. Up to 2018, the Secretariat prepared the survey, collated the responses, and presented a report to the Board of Directors after having the results aggregated, evaluated, and analyzed by external experts. Starting with the 2019 effectiveness evaluation, to further enhance outside perspectives and objectivity, we changed to a method under which the secretariat functions are taken over by external experts, who formulate the survey

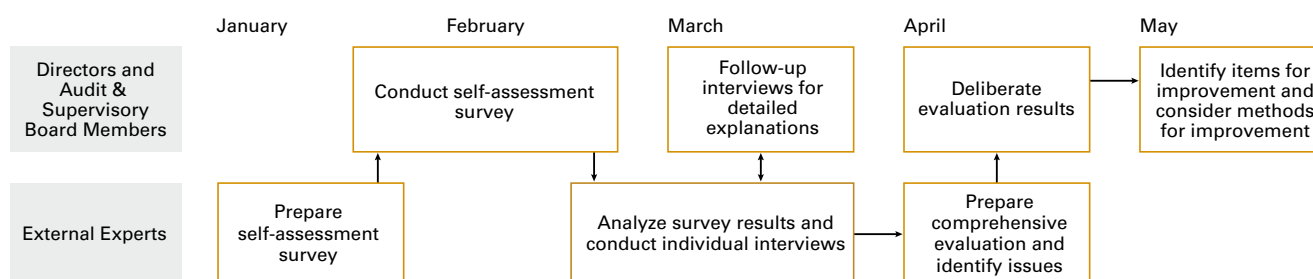
items and analyze the grounds for self-assessment, the rationality of the logic leading to the self-assessment results, and other matters. They then make a comprehensive evaluation after conducting individual interviews if necessary, and report issues and propose effective countermeasures to the Board of Directors.

In response to the analysis results received for 2019, we are considering implementation going forward of the improvement initiatives indicated below.

Regarding the Board of Directors' supervision of transactions with the Company's parent company, since it is important to deepen outside officers' understanding, including of basic transaction agreements with the parent company, the Company will take measures to provide further information through liaison meetings for outside officers, and other such opportunities.

With regard to the supervision of Group companies and enhancement of Group internal control by the Company, to enhance the corporate governance system of both domestic

Process for Evaluating the Effectiveness of the Board of Directors



Status of Improvements Identified through Evaluation of the Effectiveness of the Board of Directors

Applicable year	Main items for improvement	Main new initiatives implemented after analysis and evaluation
2015	<ul style="list-style-type: none"> Review structure of self-evaluation survey and answer options Assiduously provide materials for Board of Directors meetings at least four business days prior to the event Enhance content of reports provided to Board of Directors and make materials easily understood 	<ul style="list-style-type: none"> Began providing information on industry environment trends and other information to outside directors in a CEO message at the beginning of the Board of Directors meetings Provided Board of Directors meeting schedule for the coming year at an early date Implemented factory tours
2016	<ul style="list-style-type: none"> Change the procedure for providing materials to outside officers Enhance topics for reports to the Board of Directors 	<ul style="list-style-type: none"> Held lectures (information on trends of general shareholders meetings) by external experts (attorneys)
2017	<ul style="list-style-type: none"> Conduct prior and additional explanations on agenda items with complex content such as governance and legal matters 	<ul style="list-style-type: none"> Issued the Chugai IR Activities Report to outside officers (every quarter) Provided a glossary of technical terms, abbreviations, and the like to outside officers
2018	<ul style="list-style-type: none"> Ensure greater diversity of the Board of Directors Provide more information to outside directors and outside Audit & Supervisory Board members 	<ul style="list-style-type: none"> Deliberation by the Appointment Committee Convened a Board of Directors meeting and conducted a tour at the Fujieda Plant Held briefings on departmental operations
2019	<ul style="list-style-type: none"> Oversight of transactions with the parent company Enhanced Group company oversight and Group internal control 	<ul style="list-style-type: none"> Conducted briefings through liaison meetings for outside officers to enhance understanding of the content of the basic agreement with the parent company Presented regular and timely reports on the internal control status of overseas subsidiaries at Board of Directors meetings

and overseas subsidiaries and the internal control system as a group, the Board of Directors will supervise the Group based on continuous and timely reports received through the enhanced monitoring system established in 2019 by amending the system for management of overseas subsidiaries, in addition to regular reports on the internal control system and risk management. The Board of Directors will continue its discussions based on the results of the evaluation described above and endeavor thereby to further improve its effectiveness.

3 Introduction of Outside Perspectives

To reflect diverse stakeholder viewpoints in business decisions, Chugai actively takes measures to obtain outside perspectives under the basic management policy of creating shared value. These measures include nominating outside directors and outside Audit & Supervisory Board members, enhancing support for outside officers, and establishing a council made up of domestic and overseas specialists.

Chugai also considers it important to reflect outside perspectives through dialogue with shareholders, investors, and other stakeholders. Accordingly, the Company will focus on active dialogue as well as analysis and reporting to the Board of Directors of insights and other results emerging from the dialogue.

CIC

To respond accurately to changes in the global business environment and conduct international business in an appropriate manner, Chugai works to further enhance decision-making by operating the Chugai International Council (CIC), which is composed of Japanese and international professionals from various sectors. The CIC is composed of 10 members including women, nine of whom are non-Japanese nationals.

Support System for Outside Directors and Outside Audit & Supervisory Board Members

Secretarial Office staff provide support for outside directors. Managers including the head of the Corporate Planning

Expertise and Experience of Directors and Audit & Supervisory Board Members (As of April 1, 2021)

	Positions, Responsibilities	Name	Roles	Expertise and experience expected of directors and Audit & Supervisory Board members						
				Corporate management	R&D	Sales, Marketing	Finance, Accounting, Taxation	Legal, Risk management	Medical science, Pharmaceutical sciences	International experience
Executive Directors	Representative Director, Chairman In charge of External Affairs Dept.	Tatsuro Kosaka	Chairman of the Board of Directors Appointment Committee	●	●	●				●
	Representative Director, Deputy Chairman In charge of Sustainability Dept., Audit Dept.	Motoo Ueno		●	●			●		●
	Representative Director, President & CEO	Dr. Osamu Okuda	Appointment Committee	●	●	●			●	●
Non-Executive Directors	Outside Director*	Masayuki Oku	Chairman of Appointment Committee, Compensation Committee	●		●	●	●		●
	Outside Director*	Yoichiro Ichimaru	Appointment Committee	●		●		●		
	Outside Director*	Dr. Mariko Y Momoi							●	●
	Director	Dr. Christoph Franz	Compensation Committee	●						●
	Director	William N. Anderson	Appointment Committee, Chairman of Compensation Committee	●		●				●
	Director	Dr. James H. Sabry		●	●				●	●
Audit & Supervisory Board Members	Full-Time Audit & Supervisory Board Member	Atsushi Sato						●		
	Full-Time Audit & Supervisory Board Member	Dr. Yoshiaki Ohashi			●			●	●	●
	Outside Audit & Supervisory Board Member*	Takaaki Nimura					●			●
	Outside Audit & Supervisory Board Member*	Dr. Yuko Maeda		●	●					
	Outside Audit & Supervisory Board Member*	Kenichi Masuda						●		●

* Designated as an independent officer pursuant to the regulations of Tokyo Stock Exchange, Inc., to which notification has been made.

Department provide, as needed, reports on major changes in the operating environment and advance explanation of particular items. The Office of Audit & Supervisory Board Members is responsible for supporting the activities of Audit & Supervisory Board members in ways such as conveying internal information and providing materials for board meetings in advance.

In addition, Chugai invigorates the deliberations of the Board of Directors by preparing materials containing adequate information relevant to agenda items and distributing them to outside directors and outside Audit & Supervisory Board members well in advance of meetings. Chugai also provides additional information required by outside directors and outside Audit & Supervisory Board members and takes advantage of opportunities to provide advance explanation.

Results and Progress in 2020

The CIC had scheduled a plenary session in Tokyo in October 2020, but has postponed the event in view of the COVID-19 pandemic.

Chugai adopted the creation of shared value as its basic management policy in 2019. Consequently, with the involvement of executive directors and key executive officers, Chugai has been holding discussions on strengthening sustainable platforms with the Chugai Sustainability Advisory Committee, which consists of external experts, and on issues including corporate governance and support and design of scenarios for external international initiatives with external specialist consultants.

We held ESG meetings and a range of other meetings, such as individual briefings and events for investors and analysts, with the aim of reflecting outside perspectives through dialogue with stakeholders. Through these initiatives, we disclosed new information and engaged in dialogue on issues including sustainability-related governance systems, the relationship between material issues and increase in corporate value, and our perception of issues during and after the COVID-19 pandemic. We also held the pharmaceutical industry's first briefing dedicated to the subject of digital transformation (DX). Additionally, to gauge the expectations and demands of society and identify issues for Chugai to address, we carried out a gap analysis against ESG global indices. As a result of PDCA activities ongoing since 2018, Chugai was selected for the first time as a component of the DJSI World index, the worldwide version of the Dow Jones Sustainability Indices (DJSI), a respected set of ESG indicators covering global markets.

4 Relationship with Roche and Securing the Rights and Equality of Shareholders

Roche, the parent company of Chugai, holds 59.89 percent of Chugai's outstanding shares based on the strategic alliance agreement between the two companies. Roche and Chugai have agreed to cooperate in maintaining the listing of Chugai's common stock on the First Section of the TSE.*

The aim of this alliance is to establish a new business model that differs from conventional corporate acquisitions and joint ventures. Although Roche Holding Ltd. includes Chugai in its consolidated accounts, Chugai functions as an independent listed company and makes all of its own management decisions based on the principle of self-governance. Chugai believes that autonomy and diversity are key to generating innovation, that maintaining its independent management brings diversity to the Roche Group, and that the pharmaceuticals it creates as a result contribute to all stakeholders, including patients and minority shareholders. Chugai recognizes that the various benefits from being listed on the First Section of the TSE—such as its solid credit rating, flexible fund procurement, name recognition, and social presence—are supported by the understanding of shareholders other than Roche, i.e., minority shareholders and investors who are potential shareholders. That is why in its business dealings with the Roche Group, Chugai conducts all transactions fairly using third-party prices to protect the interests of minority shareholders, and is working to gain their trust.

Chugai believes that securing substantially equal treatment of shareholders is very important. We therefore emphasize giving due consideration to minority and foreign shareholders and to maintaining an environment that allows them to exercise their rights. Accordingly, recognizing that business plans are a commitment to shareholders, we will engage in timely, appropriate, and fair information disclosure activities in accordance with laws and regulations. As one aspect of ensuring transparency, we will also provide easy access to the information we disclose by making it available in Japanese and English.

Restrictions on Roche's Shareholding

Period	Maximum Shareholding
Oct. 1, 2002–Sep. 30, 2007	50.1 %
Oct. 1, 2007–Sep. 30, 2012	59.9%
Oct. 1, 2012 and thereafter	Cooperate in maintaining Chugai's listing

To reach a wide range of stakeholders, we send out press releases and hold various types of information meetings for the media. We also use the website and a variety of other tools to disseminate information.

* The TSE requires delisting if the ratio of tradeable shares to listed shares is less than 5 percent.

Results and Progress in 2020

In 2020, we worked to maintain opportunities for dialogue with shareholders and investors in the context of the COVID-19 pandemic by making flexible use of in-person, remote, and combined formats depending on the scale and purpose of the event.

Performance in 2020

- Number of media and IR information events: 27
- Number of investors and security analysts attending meetings worldwide: 385
- Number of briefings for individual investors and shareholders: 8
- Number of attendees at the General Meeting of Shareholders: 46
- Grand Prize, Nikkei Annual Report Awards 2020
- Best IR Award from Japan Investor Relations Association for the first time
- 2nd Place, 2020 Awards for Excellence in Corporate Disclosure, Pharmaceuticals Category
- 2020 All-Japan Executive Team Rankings, *Institutional Investor* magazine:
Best IR Team: Rank 1 (buy side)
Best CFO: Rank 3 (sell/buy side combined; buy side)

Message from the Roche Group CEO

A passion for transforming the lives of patients through breakthrough science and innovation is the foundation of our personalized healthcare solutions. This approach creates value for all stakeholders.



Dr. Severin Schwan
Roche Group CEO

Everything we do at Roche is driven by our passion to find solutions to unmet medical needs and to make a significant impact on the life of people facing serious diseases. With Chugai, we share a common purpose and values. They are the bedrock of our strategic alliance. The result is a unique business model that leverages the strengths of both companies to bolster the creation and delivery of medically differentiated products. Chugai brings Roche's novel medicines to patients in Japan, whilst Roche's global organization brings Chugai's breakthrough medicines such

as Actemra, Alecensa, and Hemlibra to patients across the world. It is exciting that Enspryng, a new groundbreaking medicine to treat a rare autoimmune disease (NMOSD), is poised to be the next global medicine designed by Chugai, and has already been approved in the United States and other countries.

Staying innovative means exploring the unknown and having the courage to scout for new challenges and ideas. These are distinct qualities I experience when I meet colleagues at Chugai. For instance, I am excited to see how Chugai is expanding its drug discovery modalities with next-generation antibodies and a mid-size molecule platform. Together with world-leading science, top-notch IT, and digital science are key capabilities for the current era of DX. They promise to reshape the entire value chain for discovering, creating and delivering healthcare solutions, and they will enable even more benefits to society. Of course, success will require tremendous changes. However, I am convinced that Chugai is on the right path with CHUGAI DIGITAL VISION 2030

and the initiatives for new partnerships, business models, and ways of working.

Chugai is also passionate about enhancing long-term stakeholder value by thoroughly integrating ESG aspects into corporate strategy. That is why in 2020 Chugai was selected for the first time as one of only eight companies in the pharmaceutical sector of DJSI World. Roche and Chugai, ranking first and third, respectively, are true leaders in corporate sustainability. Through our win-win partnership, Chugai and Roche will continue to maximize value for all stakeholders—and hence also our shareholders.

The new management team with Tatsuro Kosaka as Chairman and Dr. Osamu Okuda as President & CEO has positioned the company well to execute its new growth strategy over the next 10 years to become a top innovator in global healthcare by 2030. Together we will continue to create and deliver breakthrough innovations that bring new hope to patients worldwide.


5 Officer Remuneration Emphasizing Linkage with Performance and Stock Price

Chugai has designed its remuneration plan for directors and Audit & Supervisory Board members to attract outstanding people to put our corporate philosophy into practice and appropriately motivate them in order to continuously increase the Chugai Group's corporate value. As part of this plan, we target market-competitive levels of remuneration. Executive director remuneration is determined by benchmarking levels against a group of major Japanese corporations and other domestic pharmaceutical companies. Specifically, the Board of Directors decides remuneration levels annually after deliberation by the Compensation Committee based on the results of a survey by an external expert organization and other factors. In order to further clarify the link between remuneration and the Company's business performance and shareholder value, and to raise directors' ambition and motivate them to improve performance, executive director remuneration consists of bonuses paid according to performance and other factors in each fiscal year as a short-term incentive and restricted stock compensation linked to medium- and long-term performance (tenure-based and performance-based) as a long-term incentive, in addition to fixed regular compensation. Remuneration of non-executive directors, including outside directors, and Audit & Supervisory Board members consists solely of fixed regular compensation. The guideline for the composition of CEO remuneration is 35 percent regular compensation, 30 percent bonuses, and 35 percent restricted stock compensation, and the composition for other executive directors is determined in consideration of duties and other factors.

Bonuses, which are a short-term incentive, are determined by multiplying the standard amount set for each position by an evaluation coefficient reflecting an overall evaluation of the degree of achievement of Company and individual performance targets based on the published forecasts for the relevant fiscal year. The indicators used for the evaluation of

Company performance are Core operating profit, revenues, R&D performance, and the status of achievement of company-wide tasks for the relevant fiscal year, while those used for individual performance evaluation are the status of achievement of measures to meet performance targets and ESG-related objectives, etc., in the operational areas for which the individual is responsible. For restricted stock compensation granted as a long-term incentive, 50 percent is tenure-based restricted stock with a transfer restriction period of three to five years, and 50 percent is performance-based restricted stock. The number of shares to be granted is determined by dividing the standard amount set for each position by the closing price of the Company's shares on the day before the resolution for their allotment by the Board of Directors. The transfer restriction shall be removed at the expiration of the transfer restriction period for the shares granted, provided that the recipient has held the position of director of the Company continuously during the transfer restriction period. For performance-based restricted stock, the number of shares for which the transfer restriction shall be removed is additionally based on the result of a comparison between the total shareholder returns of domestic pharmaceutical companies and total shareholder returns of the Company.

Officer remuneration is determined by resolution of the Board of Directors for directors and following deliberation by the Audit & Supervisory Board members for Audit & Supervisory Board members, both within the total amounts approved at the General Meeting of Shareholders. The Compensation Committee, which consists of three or more external members appointed by the Board of Directors, including at least one independent outside director, deliberates on remuneration of individual directors to ensure the transparency and objectivity of the determination process.

 Notice of Convocation of the 110th Annual General Meeting of Shareholders (page 21)
https://www.chugai-pharm.co.jp/english/ir/share/agm/files/210317eChugai_110thAGM_Convo.pdf#page=22

System for Remuneration of Directors and Audit & Supervisory Board Members

Type of remuneration	Eligible officers			Payment criteria	Payment method
	Executive directors	Non-executive directors (including outside directors)	Audit & Supervisory Board members		
Fixed Regular Compensation Regular compensation	●	●	●	Paid according to position and other factors	Monthly (Cash)
Performance-Based Remuneration	Bonuses	—	—	Paid according to performance in each fiscal year	Yearly (Cash)
	Long-term incentive (Stock-based compensation)	Tenure-based restricted stock	—	Paid according to fixed length of service	Yearly (Common stock)
		Performance-based restricted stock	—	Paid according to performance over fixed period in addition to above	Yearly (Common stock)

Criteria for Performance-Based Remuneration and the Method to Determine Its Amount

Type of Remuneration	Indicators and evaluation methods	
Bonuses	<ul style="list-style-type: none"> Comprehensive evaluation is based on degree of achievement of factors including Core operating profit, revenues, R&D performance, and company-wide tasks in the relevant fiscal year. After deliberation by the Compensation Committee, the amount paid is determined by the Board of Directors within a range of 0% to 200% of the standard amount. 	
Restricted Stock Compensation	Tenure-based	<ul style="list-style-type: none"> Continuous service during the transfer restriction period
	Performance-based	<ul style="list-style-type: none"> Determination of the number of shares for which transfer restrictions are to be removed is based on the result of a comparison between the total shareholder returns of domestic pharmaceutical companies and total shareholder returns of the Company, in addition to the condition of continuous service. Evaluation period for total shareholder returns is three fiscal years. Removal of transfer restrictions is within a range of 0% to 100% of allotted shares.

Results in 2020: Amount of Remuneration Paid to Directors and Audit & Supervisory Board Members

Position	Total remuneration, etc. (Millions of yen)	Total amount by type of remuneration, etc. (Millions of yen)				Number of eligible officers
		Regular compensation	Bonuses	Restricted stock compensation		
				Tenure-based	Performance-based	
Directors (Excluding Outside Directors)	458	199	121	55	84	4
Outside Directors	41	41	—	—	—	4
Total	499	361		138		8
Audit & Supervisory Board Members (Excluding Outside Audit & Supervisory Board Members)	63	63	—	—	—	2
Outside Audit & Supervisory Board Members	36	36	—	—	—	4
Total	99	99		—		6

Notes: 1. Amounts are rounded to the nearest million yen.

2. The table above includes two directors and one Audit & Supervisory Board member who retired during 2020.

3. The amounts of "restricted stock compensation (tenure-based and performance-based)" shown in the table above are the amounts that were posted as expenses for the fiscal year under review as each respective restricted stock compensation.

Results in 2020: Amount of Remuneration Paid to Representative Directors

Name	Total consolidated remuneration, etc., by type (Millions of yen)				Consolidated remuneration total (Millions of yen)
	Regular compensation	Bonuses	Restricted stock compensation		
			Tenure-based	Performance-based	
Tatsuro Kosaka	71	72	26	41	210
Motoo Ueno	58	21	15	25	119
Dr. Osamu Okuda	40	27	8	9	84

Notes: 1. Amounts are rounded to the nearest million yen.

2. Figures show the total amount of remuneration, etc., for representative directors.

3. Other than the representative directors in the table above, no director or Audit & Supervisory Board member received total remuneration of more than ¥100 million.

Chugai and Compliance

Rooted in its belief that corporate ethics take priority over profit, Chugai places paramount importance on respect for life, and strives for fair and transparent corporate activities based on high ethical standards, along with sincere scientific initiatives.


Chugai strictly complies with laws, regulations, and voluntary industry standards and proactively takes part in the compliance activities of various associations and organizations. Chugai has also established its own guidelines for transparency, helping to ensure a high level of ethics,

morality, and transparency in its various business activities including collaboration with medical institutions and other parties and cooperation with patient groups.

In March 2020, in response to the issue by the Ministry of Health, Labour and Welfare (MHLW) of the notification "Key points to note for pharmaceutical manufacturers and distributors when providing information on prescription pharmaceuticals in response to patient inquiries," we established guidelines for information provision activities to the public, including patients and their families, based on the Chugai core value of a patient-centric approach.

In response to the external environment and the diversification of our business activities, we consolidated oversight functions for compliance promotion for the whole Chugai Group, including overseas subsidiaries, in the Compliance Committee, a corporate management committee, thereby creating a compliance system linked more directly to management. At the same time, we established functions in the Sustainability Department, Quality & Regulatory Compliance Unit, to monitor, lead, and support compliance within the Chugai Group, including overseas subsidiaries. We conduct monitoring surveys every six months and improvement activities for all organizations, and enhance compliance education through training programs. In addition, each division appoints a Compliance Manager and Compliance Officer who work to ensure thorough legal compliance in the workplace.

The internal and external consultation desks have been established to receive inquiries and reports from Chugai Group employees concerning laws, Company rules, the Chugai Group Code of Conduct, and other related matters.

 Chugai's Transparency Guidelines
<https://www.chugai-pharm.co.jp/english/sustainability/transparency/>

IT Security and Information Control Initiatives to Accelerate DX

Chugai, which uses a variety of IT systems, regards risks relating to IT and information as major risks. These include system malfunctions and the leakage of critical confidential information relating to personal data and IP rights. Chugai has established and disseminated related rules, conducts employee education, and takes safeguarding measures and other precautionary actions. Our policy of reinforcing these measures going forward is stated in the “Major Risks and Countermeasures” section (page 54).

Meanwhile, the acceleration of digital transformation (DX) that comes with the advance of the digital society and the implementation of CHUGAI DIGITAL VISION 2030 will further expand the range of risks to be dealt with through IT security and information control. This means that improvement of security management capabilities across all departments is an urgent task. In response, in January 2021 we formulated CHUGAI CYBER SECURITY VISION 2030, a mid- to long-term vision for cybersecurity built around our concept of developing as an advanced cybersecurity company to support our ambition to become a top innovator in the healthcare industry. The vision formulates strategic measures from the three perspectives of organizational operation, human resources and corporate culture, and technology, with milestones marking the way to 2030.

As part of the new cybersecurity system, we have established the Information Security Committee to plan, implement, and monitor countermeasures, while separate security countermeasures consist of PDCA cycle implementation by the Digital & IT Supervisory Division, General Affairs Department, Legal Department, and the other individual corporate organizations.

Risk Management

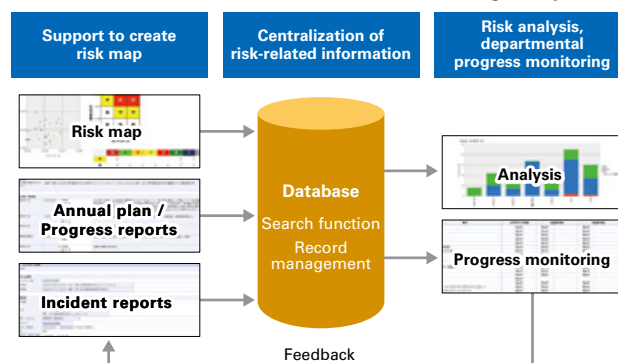
Advanced Risk Management through ERM

Enterprise risk management (ERM) is an approach to managing risk aimed at maximizing corporate value by visualizing all risk relating to business activities and managing it in an integrated framework. The Chugai Group has an established practice of ERM that identifies and evaluates risk by division and monitors the status of implementation of countermeasures. However, to realize more advanced risk management, we have introduced and operated a new ERM framework from 2021 that integrates strategy-related risk management. Specifically, we have formulated the Risk Appetite Statement to clarify policy on risk preferences with the aim of creating a healthy risk culture. We divide risks to be addressed on a company-wide basis into strategic risk (risk inherent in strategic decision-making and risk that hinders strategy execution) and operational risk (risk that hinders smooth business operations). On this basis, we will create a company-wide risk map that systematizes these risks by identifying, classifying, and visualizing them in a centralized fashion for company-wide sharing and discussion. This will not only promote effective and efficient risk management but also strengthen accountability to external stakeholders.

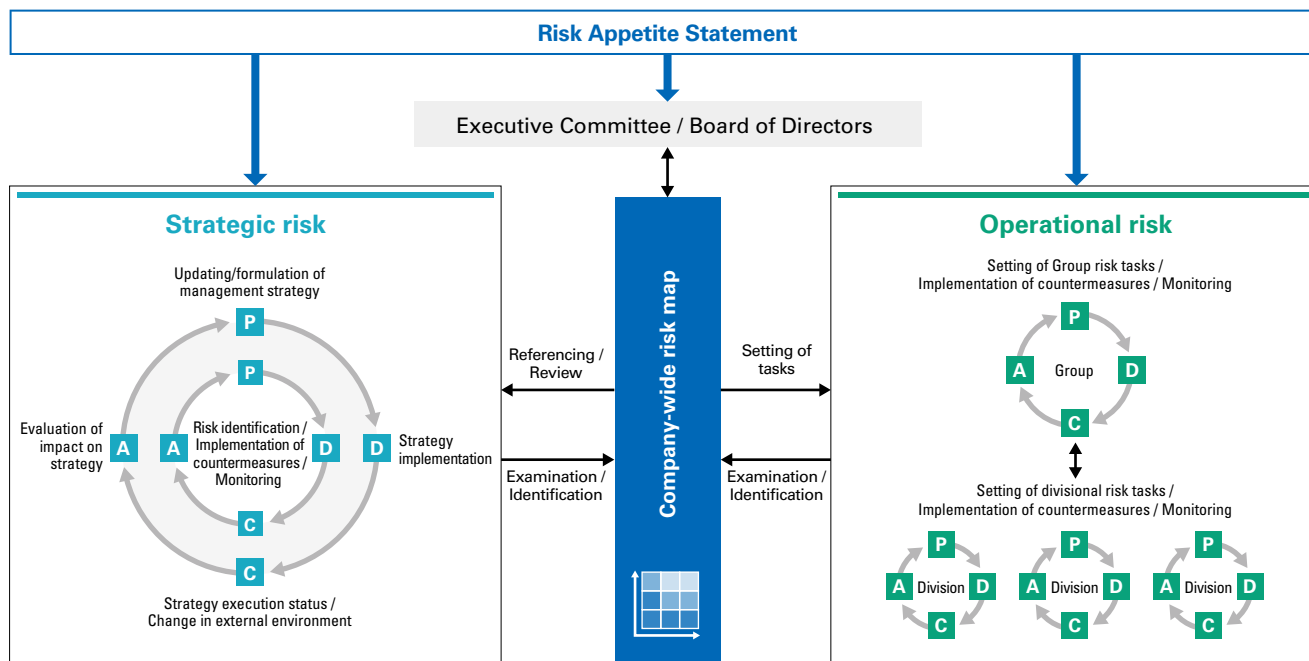
Using IT Systems to Boost Risk Management Efficiency

To promote more efficient identification, analysis, and feedback of company-wide risk information, Chugai developed an original risk management system and implemented it globally. Using the database for centralized management, divisions can record their risk maps, annual risk response plans, and incident reports. This enables us to analyze risks for the Group as a whole, and monitor countermeasures at each division.

Centralized Control of Risk Information Using IT Systems



Operational Outline of ERM



Risk Appetite Statement

Chugai's Mission Statement is the basis of the business activities we pursue to create shared value with society and increase corporate value. In these business activities, the Chugai Group regards risk as any phenomenon that hinders the achievement of management goals and the execution of strategy.

To support appropriate strategic decision-making and smooth business operations, we have formulated the Risk Appetite Statement that sets out our policy in response to risk. It is intended not only to promote a healthy risk culture but also to serve as a comprehensive basis for the judgments and actions of individual employees.

Chugai's Risk Appetite Statement (Summary)

Risk associated with pursuit of innovation

- Pursuit of innovation is the value in our existence and the source of our growth.
- To become a top innovator in the healthcare industry by pursuing cutting-edge science and technology and digital innovation, at the same time as putting in place the appropriate safeguards, we will **accept risk in a bold spirit of challenge** to pursue opportunities to generate innovation.

Risk that hinders product safety and efficacy, quality assurance, and stable supply

- Product efficacy and safety as well as quality assurance are our foremost priorities.
- Mindful that our products and the pursuit of innovation carry the inherent risk of causing unexpected side effects, and taking due account of economic viability, we will work to **avoid and reduce risk that hinders product safety and efficacy, quality assurance, and stable supply**.

Risk of compliance infringement

- Based on the belief that "corporate ethics take priority over profit," we will not only respect laws and regulations but also ensure that our judgments and actions are firmly grounded in social values, ethics, and fair dealing, and will **tolerate no risk of infringing on compliance**.

Risk to social responsibility as a corporate citizen

- In answer to the question of how Chugai as a company can help address the issues facing local communities and global society, we will cooperate and collaborate with a wide range of stakeholders to promote environmental protection and respect for human rights in all aspects of our business activities, working in this way to **reduce the risk of loss of public trust**.