[Translation: Please note that the following purports to be a translation from the Japanese original Notice of Convocation of the 107th Annual General Meeting of Shareholders for the business term ended December 31, 2017 of Chugai Pharmaceutical Co., Ltd. prepared for the convenience of shareholders outside Japan with voting rights. However, in the case of any discrepancy between the translation and the Japanese original, the latter shall prevail.]

Notice of Convocation of the 107th Annual General Meeting of Shareholders for the Business Term Ended December 31, 2017

Date and Time

10:00 a.m. on March 22, 2018 (Thursday)

Place

Royal Park Hotel - 3F Royal Hall
1-1, Nihonbashi-Kakigara-cho 2-chome,
Chuo-ku, Tokyo

Matters for Resolution

First Proposal
Appropriation of Surplus

Second Proposal
Election of Five (5) Directors

Innovation all for the patients

CHUGAI PHARMACEUTICAL CO., LTD.

Securities Code: 4519

Mission Statement

The Chugai Group upholds its mission statement—which consists of its mission, its core values and its envisioned future—in order to be a business that meets a diverse array of stakeholder expectations as it realizes its corporate responsibility to society. It is on the basis of the business philosophy "Innovation all for the patients" that the Chugai Group conducts its business operations.

Mission

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.

Core values

- The primary focus of all our activities is patients and consumers.
- In all our activities we are committed to the highest ethical and moral standards.
- We value employees who develop profound expertise and broad perspectives and pursue innovation and challenges without fear of failure.
- Wherever we operate around the world we seek to understand and respect people and cultures and to behave as good corporate citizens.
- We promote an open and active corporate culture that respects individuality, ability and teamwork.
- We care about the global environment.
- We aim to achieve a fair return for our shareholders and to disclose information appropriately and in a timely manner.

Envisioned Future

As a most important member of the Roche group, we aim to become a top Japanese pharmaceutical company by providing a continuous flow of innovative new medicines domestically and internationally.

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Reference Document Shareholders

- First Proposal Appropriation of Surplus P.5
- Second Proposal Election of Five (5) Directors P.6

Disclosure via the Internet

- The following items have been posted on the Company's website in accordance with laws and regulations and Article 15 of the Articles of Incorporation of the Company; and the documents of such items are accordingly not contained in this Notice of Convocation.
  ·Company's Stock Acquisition Rights, etc., Accounting Auditor and Framework to Ensure Operational Adequacy in the Business Report
  ·Consolidated Statement of Changes in Equity and Notes to the Consolidated Financial Statements in the Consolidated Financial Statements

Notice of Convocation of the 107th Annual General Meeting of Shareholders for the Business Term Ended December 31, 2017

Notice of Convocation P.3

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Business Report P.18
- 1. Overview of Consolidated Business Activities P.18
- 2. Company's Shares P.35
- 3. Company's Stock Acquisition Rights, etc. P.35
- 4. Company's Officers P.36
- 5. Accounting Auditor P.42
- 6. Framework to Ensure Operational Adequacy P.42

Consolidated Financial Statements P.43

Non-Consolidated Financial Statements P.45

Audit Report P.47

Reference P.51
- Corporate Social Responsibility (CSR) of Chugai P.51
- Chugai's Human Resource Management P.53
- Communication with Shareholders and Investors P.55

·Non-Consolidated Statement of Changes in Shareholders' Equity and Notes to the Non-Consolidated Financial Statements in the Non-Consolidated Financial Statements

The Business Report was audited by the Audit & Supervisory Board Members, and Consolidated Financial Statements and Non-Consolidated Financial Statements were audited by the Audit & Supervisory Board Members and the Accounting Auditor. The above-mentioned items posted on the Company's website were audited just as the documents contained in this Notice of Convocation.

- In cases where items in the Reference Document for the General Meeting of Shareholders, Business Report, Non-Consolidated Financial Statements and Consolidated Financial Statements are amended, the Company will announce the updated documents on the Company's website.

CHUGAI website: https://www.chugai-pharm.co.jp/english/ir

To the shareholders

You are cordially invited to attend the 107th Annual General Meeting of Shareholders of Chugai Pharmaceutical Co., Ltd. (the "Company") for the Business Term ended December 31, 2017. The meeting will be held as described below.

Chugai Pharmaceutical's mission is to add exceptional value through the creation of innovative medical products and services for the benefit of the medical community and human health around the world. We undertake actions that give the highest priority to patients and consumers.
Oncology, renal diseases, and bone and joint diseases are positioned as Chugai's strategic areas. We are undertaking measures to create original and innovative drugs, both in Japan and overseas, particularly to address unmet medical

NOTICE OF CONVOCATION OF THE 107th ANNUAL GENERAL MEETING OF SHAREHOLDERS FOR THE BUSINESS TERM ENDED DECEMBER 31, 2017

1	Date and Time	10:00 a.m. on March 22, 2018 (Thursday)
2	Place	Royal Park Hotel - 3F Royal Hall 1-1, Nihonbashi-Kakigara-cho 2-chome, Chuo-ku, Tokyo (Please refer to the map attached at the end of this document (translation omitted).)
3	Purpose	Matters for Reporting The Business Report for the Business Term (January 1, 2017 to December 31, 2017), Non-Consolidated Financial Statements for the Business Term, Consolidated Financial Statements for the Business Term, and the Report on the Results of Audit of the Consolidated Financial Statements by the Accounting Auditor and Audit & Supervisory Board Matters for Resolution First Proposal Appropriation of Surplus Second Proposal Election of Five (5) Directors

– End –

● If you are unable to attend the meeting, you can exercise your voting rights in writing or via electromagnetic method (the Internet, etc.). Please review the following reference documents concerning the General Meeting of Shareholders, and exercise your voting rights no later than 5:30 p.m. on March 20, 2018 (Tuesday).

needs, where the level of pharmaceutical contribution and satisfaction concerning patient treatment remains low. This is accomplished by effectively leveraging the resources of the Roche Group, while we pursue cutting-edge biopharmaceutical, antibody, and molecular targeted research technologies—areas that constitute Chugai's greatest strengths—as well as chemical synthesis technology. Through these measures, we aim to become a top pharmaceutical company with global-level capabilities. We have a responsibility and a mission to succeed as a pharmaceutical industry leader. Our goal as a leader is to provide outstanding corporate value by meeting the expectations of our stakeholders—including patients and their families as well as healthcare professionals— as we work to acquire the trust of society. We will continue to meet challenges in order to fulfill our mission, with all our activities firmly based on a strong ethical foundation as a company engaged in businesses related to the lives of human beings. We ask for the further support of our shareholders in our endeavors.

February 21, 2018
Representative Director
Chairman & CEO

Handling of voting rights exercised for multiple times:

- If you exercised your voting right both in writing and via the Internet, the voting right exercised via the Internet shall be treated as the valid vote.
- If you exercised your voting right for multiple times via the Internet, the last vote shall be treated as the valid vote.

Reference Document for General Meeting of Shareholders

First Proposal: Appropriation of Surplus

Regarding income distribution, taking into account the strategic funding needs and earnings prospects, Chugai (the Company) aims for a consolidated dividend payout ratio of 50% on average in comparison with Core EPS to provide a stable allocation of profit to all shareholders. In addition, internal reserves will be used to increase corporate value through investments to attain further growth in existing strategic domains and to identify future business.

In the fiscal year ended December 31, 2017, the Company achieved the highest results in the past or increased by 35.3% year-on-year, which resulted in Core EPS exceeding the officially announced forecast by 11.7%.

Reflecting the favorable results and based on our principles of "aiming for a consolidated dividend payout ratio of 50% on average in comparison with Core EPS", the Company would like to declare appropriation of surplus for the fiscal year under review as described below:

(*) Core EPS is diluted earnings per share attributable to the Company's shareholders after deduction of non-Core profit or loss items determined by the Company.

Matters concerning Year-End Dividends

(1) Type of dividend assets:

Cash

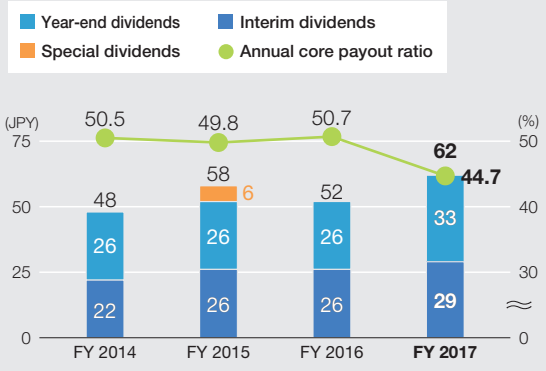
(2) Allotment of dividend assets to the shareholders and the amount thereof:

JPY33 per share of common stock of the Company
Total: JPY18,043,606,086
Total dividend for the business term 2017 is JPY6 2 per share, as an interim dividend of JPY29 per share has been paid.

(3) Date when dividends of surplus become effective:

March 23, 2018

Reference Dividends and Dividend payout ratio



Second Proposal: Election of Five (5) Directors

Out of all the ten (10) Directors, the term of office of six (6) Directors, Osamu Nagayama, Motoo Ueno, Tatsuro Kosaka, Yoshio Itaya, Yasuo Ikeda and Sophie Kornowski-Bonnet will expire at the closing of this Annual General Meeting of Shareholders. Therefore, it is proposed that five (5) Directors be elected.
The election of candidates for Directors is deliberated at the Appointment Committee, a voluntary advisory board, and determined at the Board of Directors.
The candidates for Directors are as follows:

Composition of the Board of Directors after the election (planned)

	No.	Name	Current Position and Responsibility	Important Concurrent Positions
Executive Directors	1	Osamu Nagayama Reappointment	Representative Director, Chairman & CEO*2	Outside Director and Chairman of the Board of Directors of SONY CORPORATION
	2	Motoo Ueno Reappointment	Representative Director, Deputy Chairman, Corporate Social Responsibility, Audit	
	3	Tatsuro Kosaka Reappointment	Representative Director, President & COO*2	Outside Director of ASAHI GROUP HOLDINGS, LTD.
Non-Executive Directors	4	Yasuo Ikeda Reappointment Outside Independent	Outside Director	Vice-Chairman of the Board of Directors, Musashi Academy of the Nezu Foundation Specially Appointed Professor of Waseda University Professor Emeritus of Keio University
	–*1	Masayuki Oku Outside Independent	Outside Director	Outside Director of Kao Corporation Outside Director of KOMATSU LTD. Outside Director of Panasonic Corporation Outside Corporate Auditor of Nankai Electric Railway Co., Ltd. Non-Executive Director of The Bank of East Asia (China)
	–*1	Yoichiro Ichimaru Outside Independent	Outside Director	Senior Advisor of Aioi Nissay Dowa Insurance Co., Ltd. Executive Advisor of TOYOTA MOTOR CORPORATION
	–*1	Christoph Franz	Director	Chairman of the Board of Directors of Roche Holding Ltd. Member of the Board of Directors of Stadler Rail (Switzerland) Member of the Board of Directors of Zurich Insurance Group Ltd (Switzerland)
	–*1	Daniel O'Day	Director	CEO of Roche Pharmaceuticals Division, Member of the Corporate Executive Committee, Member of the Genentech (USA) Board of Directors
	5	Sophie Kornowski-Bonnet Reappointment	Director	Head of Roche Partnering, Member of Roche's Enlarged Corporate Executive Committee

Reappointment Candidate for reappointment as Director Outside Outside Director or candidate for Outside Director
Independent Independent officer who has been registered to the Tokyo Stock Exchange Inc.

*1 The term of office of Directors of the Company is two (2) years. Masayuki Oku, Yoichiro Ichimaru, Cristoph Franz and Daniel O'Day were elected and assumed office as Directors at the 106th Annual General Meeting of Shareholders held in March 2017.

*2 If this proposal is approved, Director candidate Tatsuro Kosaka will be selected as Representative Director, President & CEO at the Board of Directors meeting to be held after this Annual General Meeting of Shareholders.

1 Reappointment

Osamu Nagayama

Date of birth: April 21, 1947 (70 years old)
Shares of the Company owned: 328,917 shares
Number of years served as Director (as at the closing of this Annual General Meeting of Shareholders): 33 years
Attendance at the meetings of the Board of Directors: 100% (9 out of 9)

●Summary of career and positions at the Company

Nov. 1978	Joined the Company
Feb. 1985	Deputy General Manager of Development and Planning Div. of the Company
Mar. 1985	Director of the Company
Mar. 1987	Director, Senior Vice President of the Company
Mar. 1989	Representative Director, Deputy President of the Company
Sep. 1992	Representative Director, President of the Company
Jun. 2010	Outside Director of SONY CORPORATION (to present)
Mar. 2012	Representative Director, Chairman of the Company (to present)

●Responsibilities at the Company

CEO

●Important concurrent positions

Outside Director and Chairman of the Board of Directors of SONY CORPORATION

●Reasons for nominating the candidate for Director

・Mr. Osamu Nagayama assumed office as Director of the Company in 1985. He has served as Representative Director, President from 1992 to 2012, and serves as Representative Director, Chairman and CEO from 2012. He has been engaged in the Company's overall management as well as management and supervision of the Company's global business. Therefore, the Company is of the judgment that he will be able to continue to execute his duties as Director appropriately in the future as well.

●Other special notes

・He serves as the Chairman of the Tokyo Biochemical Research Foundation, President of the Japan Bioindustry Association, and the Chairman of the Chugai Academy for Advanced Oncology, and the Company makes contributions, etc. to each of these organizations.

2 Reappointment Motoo Ueno

Date of birth: August 11, 1957 (60 years old)
Shares of the Company owned: 777,122 shares
Number of years served as Director (as at the closing of this Annual General Meeting of Shareholders): 17 years and 9 months
Attendance at the meetings of the Board of Directors: 100% (9 out of 9)

Summary of career and positions at the Company

Apr. 1984	Joined the Company
Oct. 1991	General Manager of London Representative Office of the Company
Mar. 1993	Director of the Company
Nov. 1994	Director, General Manager of Medical Information Div. of the Company
Jan.1995	Director, General Manager of Clinical Research & Development Div. of the Company
Jun. 1996	Director, Deputy General Manager of Research and Development Div. of the Company
Jun. 1997	Director, Senior Vice President of the Company
Jun. 1998	Senior Vice President of the Company
Jun. 2000	Director, Senior Vice President of the Company
Jun. 2002	Director, Deputy President of the Company
Jun. 2003	Director, Deputy President, Vice President of the Company
Mar. 2004	Representative Director, Deputy President of the Company
Apr. 2006	Representative Director, President, Chugai Pharma Manufacturing Co., Ltd.
Mar. 2012	Representative Director, Deputy Chairman of the Company (to present)

Responsibilities at the Company

Corporate Social Responsibility, Audit

Reasons for nominating the candidate for Director

· Mr. Motoo Ueno assumed office as Director of the Company in 2000. He has served as Representative Director, Deputy President from 2004, and serves as Representative Director, Deputy Chairman from 2012. He has been engaged in the Company's overall management as well as management and supervision of the Company's global business. Therefore, the Company is of the judgment that he will be able to continue to execute his duties as Director appropriately in the future as well.

Other special notes

· The Company has no special interests with him.

3 Reappointment Tatsuro Kosaka

Date of birth: January 18, 1953 (65 years old)
Shares of the Company owned: 25,306 shares
Number of years served as Director (as at the closing of this Annual General Meeting of Shareholders): 8 years
Attendance at the meetings of the Board of Directors: 100% (9 out of 9)

●Summary of career and positions at the Company

Apr. 1976	Joined the Company
Apr. 1995	Deputy President of Chugai Pharma Europe Ltd. (UK)
Jun. 2000	General Manager of Business Strategy Planning Office of the Company
Oct. 2002	Vice President, General Manager of Corporate Planning Dept. of the Company
Oct. 2004	Senior Vice President, General Manager of Corporate Planning Dept. of the Company
Mar. 2005	Senior Vice President, Deputy Managing Director of Sales & Marketing Group of the Company
Jul. 2005	Senior Vice President, Head of Strategic Marketing Unit of the Company
Mar. 2008	Senior Vice President, Head of Lifecycle Management & Marketing Unit of the Company
Mar. 2010	Director, Executive Vice President of the Company
Mar. 2012	Representative Director, President of the Company (to present)
Mar. 2016	Outside Director of Asahi Group Holdings, Ltd. (to present)

●Responsibilities at the Company

COO

●Important concurrent positions

Outside Director of Asahi Group Holdings, Ltd.

●Reasons for nominating the candidate for Director

・Mr. Tatsuro Kosaka has served as Senior Vice President from 2004 and as Director, Executive Vice President from 2010, after having worked mainly in Business Strategy Planning Division and Corporate Planning Division. He serves as Representative Director, President and COO from 2012. He has been engaged in the Company's overall management as well as management and supervision of the Company's global business. Therefore, the Company is of the judgment that he will be able to continue to execute his duties as Director appropriately in the future as well.

●Other special notes

・The Company has no special interests with him.

4 Yasuo Ikeda

Reappointment
Outside
Independent

Date of birth: January 18, 1944 (74 years old)
Shares of the Company owned: 0 shares
Number of years served as Director (as at the closing of this Annual General Meeting of Shareholders): 8 years
Attendance at the meetings of the Board of Directors: 100% (9 out of 9)

Summary of career and positions at the Company

Sep. 1979	Director of Keio University Hospital Blood Center
Apr. 1991	Professor of Internal Medicine, School of Medicine, Keio University
Oct. 2001	Director of Center for Integrated Medical Research of Keio University
Oct. 2005	Dean of School of Medicine, Keio University
Apr. 2009	Professor Emeritus of Keio University (to present)
Apr. 2009	Professor of Department of Life Science and Medical Bioscience, Graduate School of Advanced Science and Engineering, Waseda University
Mar. 2010	Outside Director of the Company (to present)
May 2013	Vice-Chairman of the Board of Directors, Musashi Academy of the Nezu Foundation (to present)
Apr. 2014	Specially Appointed Professor of Waseda University (to present)

Important concurrent positions

Vice-Chairman of the Board of Directors, Musashi Academy of the Nezu Foundation
Specially Appointed Professor of Waseda University
Professor Emeritus of Keio University

Other major positions

Councilor of the Tokyo Biochemical Research Foundation
Director of Senshin Medical Research Foundation
Director of Foundation for Promotion of Medical Training
Director of The Naito Foundation
President of the Japanese Society on Thrombosis and Hemostasis
Director of Clinical and Internal Medicine, The Japanese Medical Science Foundation
Chairperson of the "External Evaluation Committee for Interim Evaluation of the Management Plan," the Foundation for Biomedical Research and Innovation

Reasons for nominating the candidate for Outside Director

- Dr. Yasuo Ikeda has no experience in corporate management. From the fact that he has provided appropriate advice and supervision to the Company concerning management based on his extensive knowledge and experience as a physician and professor, the Company is of the judgment that he will be able to continue to execute his duties as Outside Director appropriately in the future as well.

Other special notes

- He satisfies the requirements for an independent officer stipulated by the Tokyo Stock Exchange, Inc. and Independence Standards established by the Company. The Company has registered him as an independent officer to the said Exchange. The Independence Standards established by the Company are stated in page 16.
  The Company has no special interests with him.

5 Reappointment

Sophie Kornowski-Bonnet

Date of birth: May 29, 1963 (54 years old)
Shares of the Company owned: 0 shares
Number of years served as Director (as at the closing of this Annual General Meeting of Shareholders): 6 years
Attendance at the meetings of the Board of Directors: 77.8% (7 out of 9)

Summary of career and positions at the Company

Oct. 1985	Scientific Manager of Abbott Diagnostic Division (France)
Jul. 1989	Marketing Research Analyst of Abbott Pharmaceutical Products (APP) (USA)
Aug. 1990	Neuroscience Sales Representative of APP (USA)
Aug. 1991	Director of Strategic Marketing, Diagnostic Imaging, Sanofi Winthrop (USA)
Sep. 1994	Director of Neuroscience Business Unit, Sanofi Winthrop (France)
Jun. 1996	Director of Marketing Research and Strategic Planning, Merck Sharp & Dohme (Paris, France)
Apr. 1997	Managing Director of Merck Sharp & Dohme (Israel)
Oct. 2000	Vice-President of Arthritis and Analgesia Franchise, Merck & Co. Inc. (USA)
Jun. 2002	Director of Rheumatology Division, Merck Sharp & Dohme (France) ("MSDPF")
Feb. 2006	Director of Cardiovascular Division, MSDPF
Mar. 2007	General Manager of Roche Pharma (France)
Feb. 2012	Head of Roche Partnering and Member of Roche's Enlarged Corporate Executive Committee (to present)
Mar. 2012	Director of the Company (to present)

Important concurrent positions

Head of Roche Partnering and Member of Roche's Enlarged Corporate Executive Committee

Reasons for nominating the candidate for Director

· Dr. Sophie Kornowski-Bonnet has provided advice and supervision to the Company concerning management as a member of the executive committee of the Roche Group from a global perspective. Therefore, the Company is of the judgment that she will be able to continue to execute her duties as Director appropriately in the future as well.

Other special notes

· The relationship between the Company and the Roche Group, where she serves as a member of the executive committee, is as stated in "1. Overview of Consolidated Business Activities (10) Parent Company and Principal Subsidiaries" of the Business Report.

(Notes) 1. Conclusion of a limited liability agreement
The Company has provided in its Articles of Incorporation that it may enter into a limited liability agreement (the "Agreement") with a Director ("Director (excluding Executive Director, etc.)," as provided in Article 423, Paragraph 1 of the Japanese Companies Act, and the limit of liability in the Agreement shall be equal to the minimum liability limit stipulated by laws and regulations. The Company has entered into the Agreement with Dr. Yasuo Ikeda and Dr. Sophie Kornowski-Bonnet, and plans to sustain such Agreement with them if they are elected as Directors.
2. The number of "Shares of the Company owned" by each candidate shown in the table above includes shares of stock in the Company stock sharing plan for Directors.
3. The ages of the candidates are as of this Annual General Meeting of Shareholders.

Reference Status of Corporate Governance of Chugai

Fundamental Views Relating to Corporate Governance

In line with its strategic alliance with the world-leading pharmaceutical company Roche, the Company has established "dedicating itself to creating new values through the provision of innovative medical products and services for the benefit of the medical community and human health around the world" as its mission and "as a most important member of the Roche Group, becoming a top Japanese pharmaceutical company which provides a continuous flow of innovative new medicines domestically and internationally" as its fundamental management objective.

While being a member of the Roche Group, the Company maintains its managerial autonomy and independence as a publicly listed company and will constantly strive to perfect its corporate governance as established in the "Chugai Pharmaceutical Co., Ltd. Basic Corporate Governance Policy" in order to fulfil the mandate of its many stakeholders appropriately and fairly for the achievement of its basic management objective.

Corporate Governance System

Organizational structure

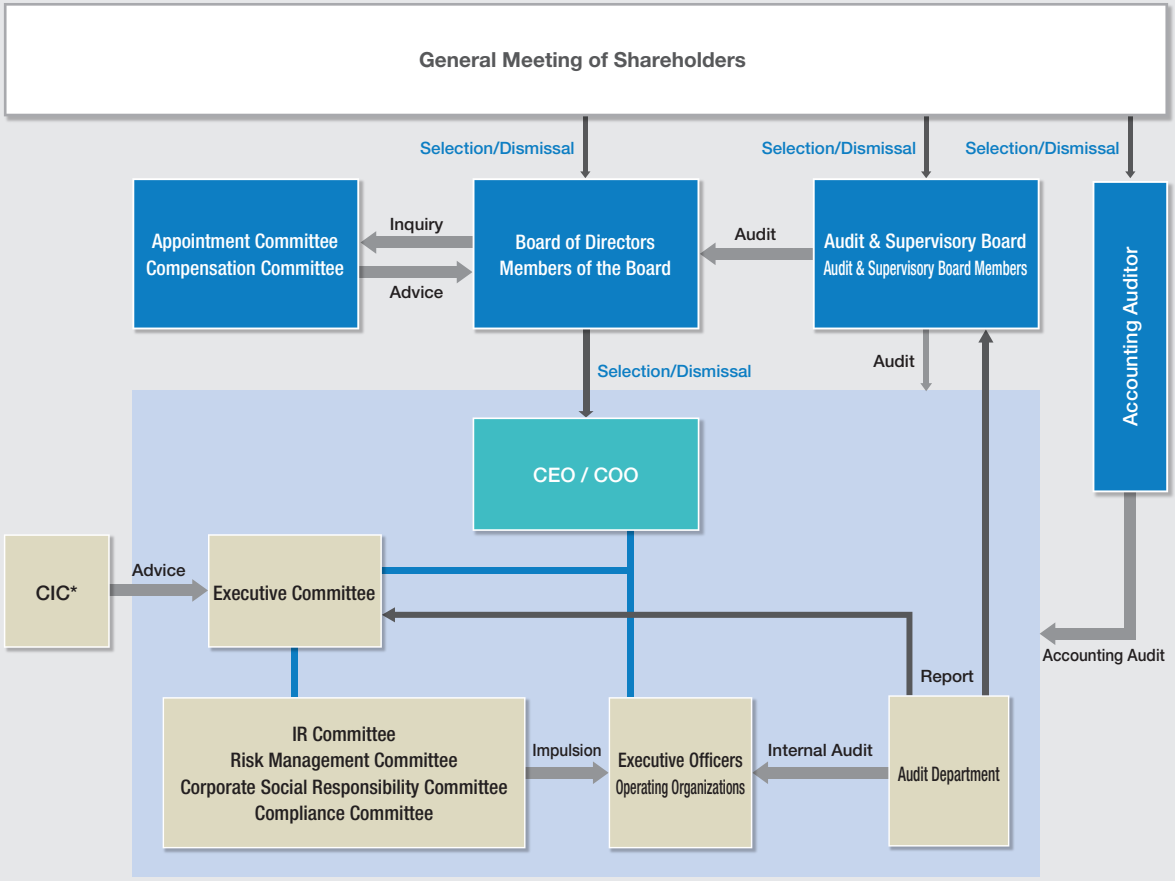
Chugai adopted "Company with an Audit & Supervisory Board" as its corporate organizational structure under the Companies Act in order to ensure effective oversight of directors from an independent and objective standpoint.

Chugai performs important managerial decision-making and supervises the execution of business through the Board of Directors, and audits the directors' performance of duties and other matters through the Audit & Supervisory Board and its Members, who are independent of the Board of Directors.

In addition, Chugai adopted the executive officer system in order to separate managerial decision-making and supervision from the execution of business and work towards swifter executive decision-making. The Board of Directors delegates to the Executive Committee, which is to consist of executive directors and executive officers, the decision-making and execution of all business not determined by the Board of Directors itself.

Furthermore, Chugai established the Appointment Committee and the Compensation Committee as advisory boards to the Board of Directors, so as to secure managerial transparency.

Chugai's Corporate Governance System



*Chugai International Council (CIC)
Chugai has established the Chugai International Council (CIC) composed of industry leaders and other professionals from around the world. The CIC works to enhance decision-making by providing valuable advice on how to deal with changes in the global business environment and appropriate business conduct.

Board of Directors

The Board of Directors consists of persons with diverse knowledge, experience and skills, and it must be ensured that the Board as a whole has the necessary expertise and skills and is of appropriate diversity and size, while the Board of Directors established and disclosed independence standards aimed at ensuring effective independence of independent directors, taking into consideration the independence criteria set by the Tokyo Stock Exchange, and appoints at least three independent outside directors.

Appointment of directors

The Board of Directors selects as director candidates individuals with the knowledge and experience to manage Chugai properly, fairly and efficiently, and sufficient public trust.

The Board of Directors selects outside director candidates from among the managers of other companies, medical experts and others with academic experience, and similar persons, taking into account experience, knowledge, and expertise, so that the outside directors may appropriately give advice on the management of Chugai and carry out the supervisory function.

Audit & Supervisory Board

The Audit & Supervisory Board consists of members with the necessary knowledge, experience, and specialist skills, and ensures the balance of expertise of that Board as a whole. One of the outside Audit & Supervisory Board Members must possess significant knowledge, experience and expertise in finance and accounting.

Appointment of Audit & Supervisory Board Members

The Board of Directors selects as candidates for the Audit & Supervisory Board Members persons with the knowledge and experience to appropriately audit managerial decision-making and the execution of business. The candidates for the outside Audit & Supervisory Board Members are selected from among experts with rich knowledge and experience in accounting, law and similar fields.

Appointment Committee

As an advisory board to the Board of Directors, the Appointment Committee deliberates on the selection of director candidates and candidates to succeed the executive directors, including the CEO.

The Appointment Committee consists of the CEO and three or more outside committee members, including at least one independent outside director, and the outside committee members are appointed by the Board of Directors from directors, excluding executive directors, and / or persons with past experience as such directors, excluding executive directors.

Compensation Committee

As an advisory board to the Board of Directors, the Compensation Committee deliberates on remuneration policy and the remuneration of individual directors.

The Compensation Committee consists of three or more outside committee members, including at least one independent outside director, and the outside committee members are appointed by the Board of Directors from directors, excluding executive directors, and / or persons with past experience as such directors, excluding executive directors.

Coordination between outside directors and Audit & Supervisory Board Members

Chugai holds regular information-sharing meetings between independent outside directors and Audit & Supervisory Board Members for the purpose of providing the information necessary for active discussion at Board of Directors meetings, and enhancing mutual coordination.

Evaluation of effectiveness of Chugai Board of Directors

Each financial year, the Board of Directors will analyze and evaluate its activities to secure the effectiveness of its decision-making and supervision, and will disclose a summary of the results.

The Board of Directors conducted a self-evaluation questionnaire in January 2017, for the current directors and Audit & Supervisory Board Members who were on the Board during the evaluation period. The Board of Directors discussed the results of the self-evaluation, based on the report by the Secretariats for the Board of Directors. The Secretariats for the Board of Directors prepared the self-evaluation questionnaire, compiled the results and reported these to the Board of Directors, taking into account the advice of outside experts.

With “Yes” being the majority of the answers to all categories in the self-evaluation questionnaire and the ratio of such answers increasing, the Board of Directors confirmed that the effectiveness of the Board of Directors overall is generally secured. With regard to changes from the previous fiscal year, including advance distribution of the details of proposals and comments by the Chairperson at the beginning of the Board of Directors meetings, positive evaluation was given, noting that the changes are beneficial for the effectiveness of the Board of Directors overall. In the fiscal year 2017, we held Board of Directors meetings at major plants of the Chugai Group and held lectures given by outside experts, while providing information to directors and Audit & Supervisory Board Members. The Board of Directors will endeavor to further improve its effectiveness based on the evaluation results.

Independence Standards

Chugai will judge outside officers (Outside Directors and Outside Audit & Supervisory Board Members) that do not fall under any of the following to be independent officers (independent Outside Directors and independent Outside Audit & Supervisory Board Members) with no risk of a conflict of interests with Chugai's general shareholders:

(1) a person who is currently or has been in the past ten years an executive (see note 1) of Chugai or any of its subsidiaries (collectively, the "Chugai Group");
(2) a person who is currently or has been in the past five years an executive of the parent company or any sister company of Chugai;
(3) a person for whom the Chugai Group is a major business partner (see note 2) or an executive of that person;
(4) a major business partner (see note 2) of the Chugai Group or an executive of that business partner;
(5) a major lender (see note 3) of the Chugai Group or an executive of that lender;
(6) a consultant, accounting professional, or legal professional who receives a large amount of money or other such assets (see note 4) other than officer remuneration from the Chugai Group (including any person belonging to a corporation, partnership, or other such organization that receives such assets);
(7) a major shareholder (see note 5) of Chugai or an executive of that shareholder;
(8) an executive of a company for which the Chugai Group is a major shareholder
(9) an executive of a company that engages a director or Audit & Supervisory Board Member (regardless of whether full or part time) from the Chugai Group or an executive of the parent company or any subsidiary of such company;
(10) a director or other executive of a corporation, partnership, or other such organization that receives contributions or aid exceeding a certain amount (see note 6) from the Chugai Group;
(11) an accounting auditor of the Chugai Group or any person belonging to an auditing corporation that is an accounting auditor of the Chugai Group; and
(12) a close relative (see note 7) of any person (limited to those in material positions (see note 8)) who falls under any of (1) through (11) above.

Note 1: "Executive" means an executive director, executive officer, corporate officer, or other such employee or the like.
Note 2: "Major business partner" means a business partner whose transactions with the Chugai Group in any business year within the past five years total 2% or more of the consolidated sales of that business partner or the Chugai Group.
Note 3: "Major lender" means a lender from whom the Chugai Group's borrowings at the end of the business year exceed 2% of the Chugai Group's consolidated total assets at the end of that business year.
Note 4: "Large amount of money or other such assets" means, in any business year within the past five years, money or other such assets in excess of the greater of (a) ten million yen annually or (b) 2% of the total annual income of the person receiving the money or other such assets.
Note 5: "Major shareholder" means a shareholder directly or indirectly holding 10% or more of total voting rights in any business year within the past five years.
Note 6: "Contributions or aid exceeding a certain amount" means, in any business year within the past five years, contributions or aid exceeding the greater of (a) ten million yen annually or (b) 2% of the total annual income of the person receiving the contributions or aid.
Note 7: "Close relative" means a spouse or a relative within the second degree of kinship.
Note 8: "Those in material positions" means directors (excluding outside directors), corporate officers, and executive officers, or any person with authority equivalent to any of these.

End of Reference Document

memo

Business Report

January 1, 2017 to December 31, 2017

1 Overview of Consolidated Business Activities

(1) Asset and Income Status, etc.

a) Asset and Income Status

Item	FY 2014	FY 2015	FY 2016	FY 2017
Revenues (JPY billion)	461.1	498.8	491.8	534.2
Operating profit (JPY billion)	75.9	86.8	76.9	98.9
Net income (JPY billion)	52.1	62.4	54.4	73.5
Net income attributable to Chugai shareholders (JPY billion)	51.0	61.1	53.6	72.7
Total assets (JPY billion)	739.5	787.4	806.3	852.5
Total equity (JPY billion)	597.8	627.3	646.5	692.9
Basic earnings per share (JPY)	93.53	112.00	98.12	133.04
Equity per share attributable to Chugai shareholders (JPY)	1,092.90	1,146.17	1,181.67	1,265.46

b) Core Results Status

Item	FY 2014	FY 2015	FY 2016	FY 2017
Gross profit (JPY billion)	244.2	260.0	245.0	281.3
Operating profit (JPY billion)	77.3	90.7	80.6	103.2
Net income (JPY billion)	53.0	64.9	56.8	76.7
Net income attributable to Chugai shareholders (JPY billion)	51.9	63.7	56.1	75.9
Core EPS (JPY)	95.04	116.42	102.50	138.68
Research and development (JPY billion)	80.6	81.9	82.6	88.9

(Notes) 1. Starting from the fiscal year 2013, the Company adopts Core results, which are the results after deducting gains or losses related to non-Core events of the Company from IFRS results, as indicators to manage recurring profits generated from the pharmaceutical business, the Company's core business. Core results are used by the Company as an internal performance indicator, for explaining the status of recurring profits both internally and externally, and as the basis for payment-by-results such as a return to shareholders.

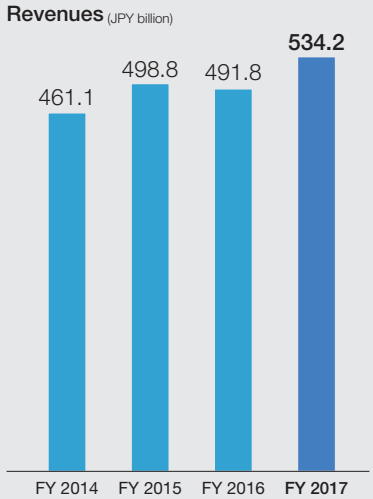
2. Core EPS is diluted earnings per share attributable to Chugai shareholders after deduction of non-Core profit or loss items determined by the Company.

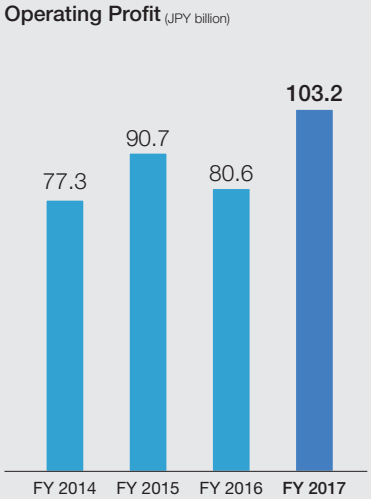
c) Other Significant Performance Indicators

Item	FY 2014	FY 2015	FY 2016	FY 2017
Ratio of equity attributable to Chugai shareholders (%)	80.6	79.5	80.1	81.2
Ratio of net income to equity attributable to Chugai shareholders (ROE) (%)	8.7	10.0	8.4	10.9
Price-earnings ratio (times)	31.69	37.86	34.19	43.37
Dividends per share (JPY)	48.00	58.00	52.00	62.00
Core dividend payout ratio (%)	50.5	49.8	50.7	44.7

(Notes) 1. The amount of dividends per share for the fiscal year 2017 is conditional on the approval of the First Proposal (Appropriation of Surplus) proposed at the 107th Annual General Meeting of Shareholders for the Business Term ended December 31, 2017, and the dividend payout ratio has been calculated based on this amount.
2. "Core dividend payout ratio" stated above represents dividend per share against Core EPS.

Reference Key Performance Indicators (Core Results)





(2) Developments and Results of Business Activities

a) Overview of Business Activities

During the fiscal year under review, the Japanese economy continued a moderate expansion against a backdrop of favorable corporate earnings supported by the continued stable growth of the global economy, despite increasing uncertainty over the international situation.

Meanwhile, the pharmaceutical industry continued to find itself in a harsh environment amid a host of challenges, under the policies to reduce medical expenditures by each country in conjunction with growing budget deficits, and the increasingly extensive prescription of generic drugs, and Japanese government escalated pressure to curb drug costs in a radical reform of the drug pricing system, along with the special market-expansion re-pricing. And with the expansion of opportunities to generate innovation and intensified competition associated with the dramatic progress of life science technology and ICT, further changes is also expected in the environment surrounding the pharmaceutical industry.

The Chugai Group (the "Group") marked the 15th anniversary of its strategic alliance with Roche and is working to transform into a company that continues making progress globally through demonstration of its competitive strengths by leveraging this alliance. In the course of the new Medium-Term Business Plan "IBI 18," which was commenced in January 2016, the Group will aim to materialize its vision of a top Japanese pharmaceutical company, for further breakthrough based on the two priority themes of "acquisition and implementation of competitiveness at a global top level" and "selection and concentration strategy for acceleration of growth."

Under such circumstances, the Group, during the fiscal year under review, attained excellent achievements, including steady progress in the development of both in-house developed products that are our global growth drivers and in-licensed products from Roche, as well as the establishment and reinforcement of a production system for the market launch and expansion of these growth drivers along with full-swing domestic and overseas collaboration among the Marketing & Sales Division, the Drug Safety Division, and the Medical Affairs Division with the aim of providing advanced solutions.

Financial results for the fiscal year under review amounted to revenues of JPY534.2 billion, operating profit of JPY103.2 billion and net income of JPY76.7 billion (all results are on a Core basis).

Reference **Adoption of Core Results**

Starting from the fiscal year 2013, the Company adopts Core results as indicators to manage recurring profits generated from the pharmaceutical business, the Company's core business. Core results are the results after deducting gains or losses related to non-Core events of the Company from IFRS results. The Company uses Core results for explaining the status of recurring profits both internally and externally, and also as the basis for payment-by-results such as a return to shareholders.

Core results are determined from the IFRS results by adjusting the following items.

- Amortization and impairment of intangible assets (for example, lump-sum and milestone payments pertaining to products under development in-licensed from third parties)
- Merger impacts attributable to acquisitions of companies or businesses
- Non-recurring items such as expenses for restructuring, environmental measures and litigation, and disasters
- Tax effect for the above items and income attributable to non-controlling interests

b) Revenues

(Unit: JPY billion)

Item	Actual performance for the fiscal year under review	Actual performance for the previous fiscal year	Year-on-year difference for the same period (%)
Product sales	**499.3**	**472.7**	**up 5.6%**
Excluding Tamiflu	482.4	459.2	up 5.1%
Japan	388.4	379.7	up 2.3%
Oncology field	225.9	220.3	up 2.5%
Bone and joint diseases field	93.3	86.1	up 8.4%
Renal diseases field	39.3	41.1	down 4.4%
Other fields	29.9	32.2	down 7.1%
Overseas	94.0	79.5	up 18.2%
Tamiflu	16.9	13.5	up 25.2%
Royalties and other operating income	**34.9**	**19.1**	**up 82.7%**
Revenues	**534.2**	**491.8**	**up 8.6%**

Note: Independently disclosed sales of transplant, immunology and infectious diseases area up until the previous fiscal year were included and disclosed in sales of others area from the first quarter in the fiscal year under review.

Domestic sales (excluding Tamiflu)

Domestic sales excluding Tamiflu (an anti-influenza agent) were JPY388.4 billion (an increase of 2.3% year on year) due to solid sales of Alecensa (an ALK inhibitor, anti-cancer agent) as well as mainstay products in the bone and joint diseases area, despite the impact of the 2016 NHI drug price revisions in the first quarter.

Oncology products sales were JPY225.9 billion (an increase of 2.5% year on year). This was due to the favorable performance of Alecensa and Perjeta (an anti-HER2 humanized monoclonal antibody, anti-cancer agent), despite the sluggish growth of Avastin (an anti-VEGF humanized monoclonal antibody, anti-cancer agent), which became subjected to special market-expansion re-pricing in 2016.

Bone and joint diseases products sales were JPY93.3 billion (an increase of 8.4% year on year). This was due to the robust sales of mainstay products such as Edirol, a top brand of activated vitamin D3 in the domestic market of oral therapeutic agents for osteoporosis, Actemra (a humanized anti-IL-6 receptor monoclonal antibody) and Bonviva (a bisphosphonate for osteoporosis).

Renal diseases products sales amounted to JPY39.3 billion (a decrease of 4.4% year on year) due to a decline in sales of Oxarol (an agent for secondary hyperparathyroidism) and Mircera (a long-acting erythropoiesis-stimulating agent), as a result of the NHI drug price revisions in 2016.

Tamiflu

Sales of Tamiflu (an anti-influenza agent) for ordinary use were JPY11.9 billion (a decrease of 0.8% year on year), while sales to government stockpiles etc. were JPY5.0 billion (an increase of 233.3% year on year).

Overseas sales

Overseas sales amounted to JPY94.0 billion (an increase of 18.2% year on year) due mainly to increases in Alecensa and other exports to Roche.

c) Financial Results

Consolidated financial highlights (IFRS results)

Revenues for the fiscal year under review were JPY534.2 billion (an increase of 8.6% year on year), operating profit for the fiscal year under review was JPY98.9 billion (an increase of 28.6% year on year), and net income for the fiscal year under review was JPY73.5 billion (an increase of 35.1% year on year). These results include non-Core items, such as amortization of intangible assets of JPY1.3 billion, impairment loss of intangible assets of JPY4.0 billion and gain on litigation of JPY1.0 billion received as compensation, etc. associated with the Oxarol lawsuit, which are excluded from the Core results that Chugai adopts to manage recurring business activities.

Consolidated financial highlights (Core results)

(Unit: JPY billion)

Item	Actual performance for the fiscal year under review	Actual performance for the previous fiscal year	Year-on-year difference for the same period (%)
Revenues	534.2	491.8	up 8.6%
Gross profit	281.3	245.0	up 14.8%
Operating profit	103.2	80.6	up 28.0%
Net income	76.7	56.8	up 35.0%

Revenues for the fiscal year under review were JPY534.2 billion (an increase of 8.6% year on year), due to increases in sales and royalties and other operating income.

Of revenues, sales excluding Tamiflu were JPY482.4 billion (an increase of 5.1% year on year), mainly due to the sales growth of Alecensa in Japan, and in the bone and joint diseases area, as well as increases in Alecensa and other exports to Roche, despite the effects of the 2016 NHI drug price revisions in the first quarter. Royalties and other operating income amounted to JPY34.9 billion (an increase of 82.7% year on year), due to an increase of one-time income such as milestone income.

Cost to sales ratio was 50.7%, a 1.5 percentage point improvement year on year, due to a change in the product mix, etc. As a result, gross profit amounted to JPY281.3 billion (an increase of 14.8% year on year).

Operating expenses were JPY178.1 billion (an increase of 8.3% year on year). Marketing and distribution expenses were JPY72.8 billion (an increase of 4.3% year on year) due to the

increase in sales promotion activities, etc., research and development expenses amounted to JPY88.9 billion (an increase of 7.6% year on year), due primarily to the progress of projects and reclassification of some expenses due to organizational changes, etc., and general and administration expenses amounted to JPY16.3 billion (an increase of 34.7% year on year), due to an increase in various expenses including the enterprise tax (pro forma standard taxation).

As a result, Core operating profit was JPY103.2 billion (an increase of 28.0% year on year).

Other expense represents settlement for transfer pricing taxation to Roche, under which JPY1.7 billion was recorded in the fiscal year under review, including the deduction associated with the estimated amount recorded in the previous fiscal year.

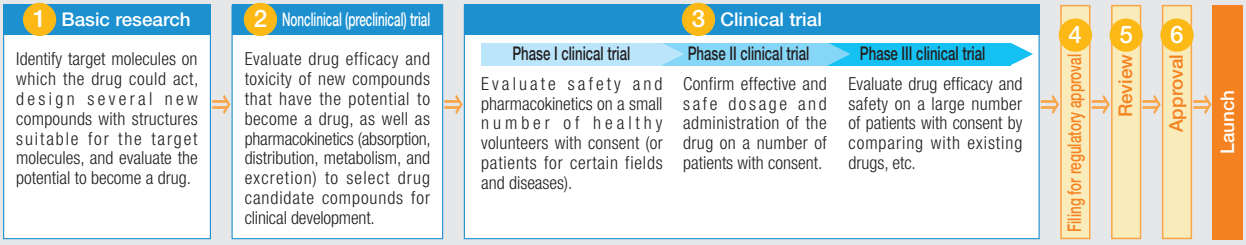
As a result, core net income was JPY76.7 billion (an increase of 35.0% year on year) and Core EPS was JPY138.68 (an increase of 35.3% year on year).

d) R&D Activities

In Japan and overseas, the Chugai Group is actively engaged in prescription pharmaceutical R&D activities and is working to develop innovative products with global application. In Japan, the Group has established research bases in Fuji Gotemba (Shizuoka) and Kamakura (Kanagawa), which are collaborating to develop new pharmaceuticals, and its research facilities in Ukima (Tokyo) are conducting industrialization research. Overseas, Chugai Pharma USA, Inc. (United States); Chugai Pharma Europe Ltd. (United Kingdom); Chugai Pharma Science (Beijing) Co., Ltd. (China); and Chugai Pharma Taiwan Ltd. (Taiwan) are engaged in clinical development and submission of applications in their respective countries. Chugai Pharmabody Research Pte. Ltd. (Singapore) and jointly controlled businesses C&C Research Laboratories (South Korea) are engaged in pharmaceutical research and development.

Reference **Process of new drug development**

It takes as long as 9 to 17 years to develop a new drug, from the discovery of candidate compounds to the launch as a pharmaceutical product.



As for clinical development activities, the Group saw progress as described below.

(i) Oncology

- We obtained approval in Europe for the indication of adult patients with anaplastic lymphoma kinase (ALK) positive, metastatic NSCLC who have progressed on or those intolerant to crizotinib, for Alecensa in February, 2017. We filed overseas applications for the expected indication of ALK positive, metastatic NSCLC (1st line) in March, 2017 and obtained approval in November in US and in December in Europe in 2017.
- We filed an application for the engineered anti-PDL1 monoclonal antibody RG7446 (atezolizumab) for the expected indication of unresectable, advanced or recurrent NSCLC in February, 2017. We started Phase III multinational studies for the expected indications of renal cell carcinoma (adjuvant) in January, 2017 and ovarian cancer and prostate cancer in March, 2017.
- We filed an application for glycoengineered type II anti-CD20 monoclonal antibody GA101/RG7159 for the expected indication of CD20-positive B-cell follicular lymphoma in August, 2017.
- We filed an application for Perjeta for the expected indication of adjuvant therapy for HER2-positive early breast cancer in October, 2017. We decided to discontinue development for gastric cancer considering the results of Phase III multinational study (JACOB study).
- We started Phase III multinational study for the AKT inhibitor (RG7440) for the expected indications of prostate cancer in June, 2017.
- We started Phase III multinational study for the anti-CD79b antibody-drug conjugate RG7596 for the expected indication of DLBCL in November, 2017.
- We started Phase I study for the MEK inhibitor RG7421 for the expected indication of solid tumors in July, 2017.
- We decided to discontinue development of Avastin for malignant pleural mesothelioma, since Roche has judged that the MAPS study, an overseas investigator initiated trial, was not fully conducted according to registrational standards.
- We decided to discontinue development of the IDO inhibitor RG6078 for solid tumors based on the results of overseas clinical studies conducted by Roche.

(ii) Bone and Joint Diseases

- We started Phase III study in China for the sodium hyaluronate drug (Suvenyl) for the expected indication of knee osteoarthritis and shoulder periarthritis in July, 2017.

(iii) Renal Diseases

- We started overseas Phase I study for EOS789 for the expected indication of hyperphosphatemia in February, 2017.

(iv) Autoimmune Diseases

- We obtained approval for the indication of giant cell arteritis for Actemra in the US in May and in Europe in September, 2017. Also, we obtained approval in Japan for Takayasu arteritis (TAK) and giant cell arteritis (GCA) that have not responded sufficiently to existing therapies in August, 2017.
- We started Phase I study for the BTK inhibitor RG7845 for the expected indication of rheumatoid arthritis in June, 2017.

(v) Neurology

- We started Phase III multinational study for the anti-amyloid-beta humanized monoclonal antibody RG7412 for the expected indication of Alzheimer's disease in March, 2017.
- We started Phase II/III multinational study for the anti-myostatin adnectin RG6206 for the expected indication of DMD in November 2017.
- We started Phase I study in March and Phase II multinational study in November for the SMN2 splicing modifier RG7916 for the expected indication of spinal muscular atrophy in 2017.

(vi) Others

- We filed applications for the anti-FIXa/FX bispecific antibody ACE910/RG6013 for the expected indication of hemophilia A (inhibitor) in the US/Europe in June and in Japan in July, 2017. We obtained approval for once-weekly subcutaneous injection of ACE910/RG6013 for routine prophylaxis to prevent or reduce the frequency of bleeding episodes in adult and pediatric patients with hemophilia A (congenital factor VIII deficiency) with factor VIII inhibitors in US in November, 2017.
- We started Phase I study for the anti-VEGF/Ang2 bispecific antibody RG7716 for the expected indication of wet age-related macular degeneration / diabetic macular edema in September, 2017.

Reference

Status of clinical development (as of December 31, 2017)

Development code / Generic name / Product name (Scheduled) / Dosage form	Expected indication	Location	Stage (Time): Phase I	Phase II	Phase III	Filing	Approval	Launch
Oncology field								
AF802 / RG7853 alectinib / Alecensa / Oral	Non-small cell lung cancer (NSCLC) [post-crizotinib]	Europe					(February)	
	NSCLC [1st line] (additional indication)	US					(November)	
		Europe					(December)	
RG7446 atezolizumab / Tecentriq / Injection	NSCLC [2nd line]	Japan					(January 2018)	
	NSCLC [1st line] (additional indication)	*						
	NSCLC (adjuvant) (additional Indication)	*						
	Small cell lung cancer (SCLC) (additional indication)	*						
	Urothelial carcinoma (additional indication)	*						
	Muscle invasive urothelial carcinoma (adjuvant) (additional indication)	*						
	Renal cell carcinoma (additional indication)	*						
	Renal cell carcinoma (adjuvant) (additional indication)	*						
	Breast cancer (additional indication)	*						
	Ovarian cancer (additional indication)	*						
	Prostate cancer (additional indication)	*						
GA101 / RG7159 obinutuzumab / Product name undetermined / Injection	Follicular lymphoma	Japan				(August)		
RG1273 pertuzumab / Perjeta / Injection	Breast cancer (adjuvant) (additional indication)	Japan				(October)		
RG435 bevacizumab / Avastin / Injection	Renal cell carcinoma (additional indication)	*						
RG3502 trastuzumab emtansine / Kadcyla / Injection	Breast cancer (adjuvant) (additional indication)	*						
RG7440 ipatasertib / Product name undetermined / Oral	Prostate cancer	*						
RG7596 polatuzumab vedotin / Product name undetermined / Injection	Diffuse large B-cell lymphoma (DLBCL)	*						
GC33 / RG7686 codrituzumab / Product name undetermined / Injection	Hepatocellular carcinoma	*						
CKI27 Generic name undetermined / Product name undetermined / Oral	Solid tumors	Japan						
		Over-seas						
RG7604 taselisib / Product name undetermined / Oral	Solid tumors	Japan						
ERY974 Generic name undetermined / Product name undetermined / Injection	Solid tumors	Over-seas						
RG7421 cobimetinib / Product name undetermined / Oral	Solid tumors	Japan						

Development code Generic name / Product name / Dosage form	Expected indication	Location	Stage (Time): Phase I / Phase II / Phase III / Filing / Approval / Launch
Bone and Joint Diseases Field			
ED-71 eldecalcitol / Edirol / Oral	Osteoporosis	China	
NRD101 Purified sodium hyaluronate / Suvenyl / Injection	Knee osteoarthritis / Shoulder periarthritis	China	
Renal Diseases field			
EOS789 Generic name undetermined / Product name undetermined / Oral	Hyperphosphatemia	Japan	
		Over-seas	
Autoimmune Diseases field			
MRA / RG1569 tocilizumab / Actemra / Injection	Giant cell arteritis (additional indication)	US	(May)
		Europe	(September)
	Takayasu arteritis / Giant cell arteritis (additional indication)	Japan	(August)
	Systemic sclerosis (additional indication)	*	
SA237 / RG6168 satralizumab / Product name undetermined / Injection	Neuromyelitis optica (NMO)	*	
RG7845 Generic name undetermined / Product name undetermined / Oral	Rheumatoid arthritis	Japan	
Central Nervous System field			
RG1450 gantenerumab / Product name undetermined / Injection	Alzheimer's disease	*	
RG7412 crenezumab / Product name undetermined / Injection	Alzheimer's disease	*	
RG6206 (BMS-986089) Generic name undetermined / Product name undetermined / Injection	Duchenne muscular dystrophy (DMD)	*	***
RG7916 Generic name undetermined / Product name undetermined / Oral	Spinal muscular atrophy (SMA)	*	
Other fields			
ACE910 / RG6013 emicizumab / Product name undetermined / Injection	Hemophilia A (inhibitor)	US	(November)
		Europe	(June)
		Japan	(July)
	Hemophilia A (non-inhibitor)	*	
RG3637 lebrikizumab / Product name undetermined / Injection	Idiopathic pulmonary fibrosis	*	
CIM331**** nemolizumab / Product name undetermined / Injection	Pruritus in dialysis	Japan	
URC102 Generic name undetermined / Product name undetermined / Oral	Gout	Over-seas	
SKY59 / RG6107 Generic name undetermined / Product name undetermined / Injection	Paroxysmal nocturnal hemoglobinuria (PNH)	*	**
PCO371 Generic name undetermined / Product name undetermined / Oral	Hypoparathyroidism	Over-seas	
RG7716 Generic name undetermined / Product name undetermined / Injection	Wet age-related macular degeneration / diabetic macular edema	Japan	

In principle, completion of first dose is regarded as the start of clinical studies in each phase. : Change in status in January 2017 and thereafter

* : Multinational study ** : Phase I/II clinical study *** : Phase II/III clinical study

**** : Development for atopic dermatitis: Out-licensed to Galderma (Overseas) and Maruho (Japan)

Reference **Main Products by Therapeutic Field**

Oncology field

Avastin®	Anti-cancer agent
Herceptin®	Anti-cancer agent
Rituxan®	Anti-cancer agent
Alecensa®	Anti-cancer agent
Xeloda®	Anti-cancer agent
Perjeta®	Anti-cancer agent
Tarceva®	Anti-cancer agent
Kadcyla®	Anti-cancer agent
Zelboraf®	Anti-cancer agent

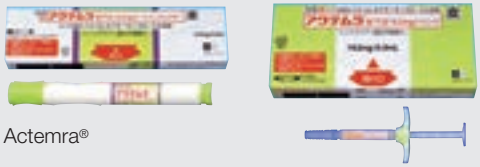
Avastin®

Renal diseases field

Mircera®	Renal anemia agent
Oxarol®	Agent for secondary hyperparathyroidism in hemodialysis patients

Bone and joint diseases field

Actemra®	Rheumatoid arthritis agent
Edirol®	Osteoporosis agent
Bonviva®	Osteoporosis agent
Suvenyl®	Agent for joint function improvement


Actemra®

Other fields

CellCept®	Immunosuppressant
Tamiflu®	Anti-influenza agent

Mircera®

(3) Capital Expenditures

The Group continuously undertakes capital investments to improve and streamline its manufacturing facilities, as well as to enhance and strengthen R&D capabilities. Capital expenditures during the fiscal year under review were JPY34.3 billion. Such expenditures mainly consisted of investments for the high-mix low-volume production of antibody API for initial commercial products at the Ukima Plant (expansion of production capacity by means of new construction of UK3), the high-mix low-volume production of pre-filled syringe form products (installment of tray filler) at the Utsunomiya Plant as well as the strengthening of solid formulation manufacturing facility, etc. (handle quick launch and steady supply) at the Fujieda Plant.

(4) Financing

The Group did not raise any capital through the issuance of corporate bonds nor capital increase, etc. during the fiscal year under review.

(5) Transfer of Business, etc.

In the fiscal year under review, the Group conducted none of such undertakings as transfer of business, absorption-type company split, incorporation-type company split, acceptance of assignment of business of another company, succession to rights and obligations in connection with business of another juridical person by absorption-type merger or absorption-type company split, or acquisition/disposition of shares, other equity or stock option of another company.

(6) Future Tasks

a) Basic Management Principles

In line with its strategic alliance with the world-leading pharmaceutical company Roche, the Group has established "dedicating itself to creating new values through the provision of innovative medical products and services for the benefit of the medical community and human health around the world" as its mission and "becoming a top Japanese pharmaceutical company which provides a continuous flow of innovative new medicines domestically and internationally" as its fundamental management objective.

As the Group works to achieve these goals, it will carry out its business activities in line with its core values of "the primary focus of all our activities is patients and consumers" and "committing to the highest ethical and moral standards" as befits a corporate group involved in the healthcare industry.

Under these basic management principles, the Group is making continuous efforts to pursue innovation in line with the philosophy "Innovation all for the patients." In addition, by progressively enhancing business efficiency, the Group is aiming to meet the expectations of patients, medical care professionals, shareholders, and other stakeholders and realize its objective of becoming a top pharmaceutical company.

b) Medium-to-Long-Term Business Strategy and Tasks

Amid increasing needs for pharmaceuticals due to an increase in the world population and progressive demographic graying in each country, how to realize sustainable medical care with limited resources has become a common issue in the world. While the dramatic progress of life sciences and ICT has expanded opportunities to generate innovation for solving medical issues, competition among companies to rapidly realize innovation has intensified more than ever. In addition, amid mounting pressure to curb drug costs against the backdrop of financial difficulties in each country, extremely harsh measures to suppress prices are being adopted especially in the Japanese market.

Through its previous medium-term business plan "ACCEL 15," the Group has achieved top-class growth in Japan and expansion of top share of the domestic oncology market based on numerous innovative new medicines. As for R&D activities, the Group has also achieved numerous results such as building a strong development pipeline by means of leading-edge in-house drug discovery capabilities, such as antibody engineering technologies, and a wealth of development compounds from Roche. In terms of emicizumab (expected indication: hemophilia A), which was discovered in-house, the Group filed applications in 2017 in three regions, namely Japan, the United States and Europe, and has obtained approval in the United States. As for products in-licensed from Roche, there are numerous new leading drugs and drug candidates such as atezolizumab (Product name: Tecentriq),

immune checkpoint inhibitor approved in Japan in January 2018 for the treatment of NSCLC and also under development for various other cancers, which are bringing opportunities for great progress as the growth driver. On the other hand, during the next several years until the contribution of new growth driver products become full swing, sales growth is expected to slow down than before due to substantial drug price reductions for existing major products.

Amid such a mixture of opportunities and threats, the Group formulated its medium-term business plan "IBI 18," which covers the period from fiscal year 2016 through fiscal year 2018, and has been engaged in initiatives to transform into a company that continues making progress globally through demonstration of its competitive strengths by leveraging its strategic alliance with Roche. The name of the medium-term business plan "IBI 18" reflects our commitment to thoroughly pursue innovation captured in the slogan "Innovation Beyond Imagination" toward 2018, the final year of the plan.

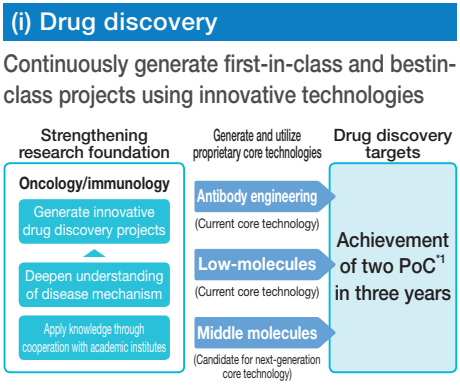
The Group has been focusing on issues in the following fields in line with "IBI 18," based on the two priority themes of "acquisition and implementation of competitiveness at a top global level" and "selection and concentration strategy for acceleration of growth."

(i) Drug discovery

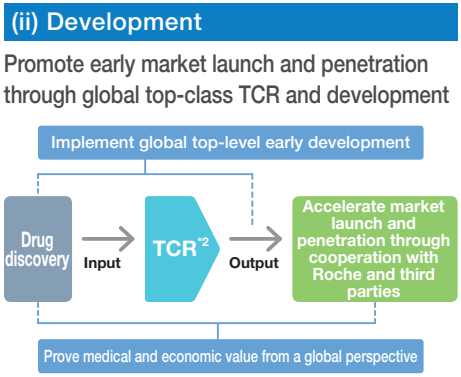
The Group has moved ahead with the generation of innovative drugs in both biopharmaceuticals and small molecule drugs. Efforts in the biopharmaceutical field have been successful, leading to the world's most advanced results with respect to the establishment of antibody engineering technologies such as recycling antibody and sweeping antibody technologies. Regarding small molecule drugs also, the Group has successfully supplemented its own accumulated technologies with Roche's compound library to achieve a dramatic strengthening of its drug discovery base.

The Group's drug discovery capabilities have been highly evaluated worldwide, with three drugs generated by Chugai being designated as Breakthrough Therapy by the United States Food and Drug Administration (FDA).

Under "IBI 18," the Group has been making priority investment in the world's leading-edge antibody engineering technologies to further accelerate the generation of innovative R&D projects. In addition, the Group has selected technologies for middle molecules as the candidate for next-generation core technology following small molecule and antibody engineering, and has been striving for the establishment of technologies through concentrated investment and early generation of R&D



*1 PoC (Proof of Concept)
Demonstration that the therapeutic effect conceived in the research stage is effective in humans.



*2 TCR (Translational Clinical Research)
Clinical research ranging from preclinical research to PoC that clinically verifies the scientific concept that was developed through drug discovery operations.

projects. Furthermore, through cooperation with academic institutions such as the Osaka University Immunology Frontier Research Center (IFReC), with which the Group has concluded a comprehensive collaboration agreement, and collaboration with Roche in the molecular information field, the Group will work to strengthen its research foundation with emphasis on oncology and immunology.

Going forward, the Group will continue to leverage these innovative drug discovery technologies and drug discovery research systems in seeking to continuously generate first-in-class and best-in-class pharmaceutical products.

(ii) Development

The Group holds a development pipeline well-stocked with items generated by its own research units as well as items obtained from Roche. The Group has concentrated its own global development resources in the early development stage by utilizing the unique business model resulting from the strategic alliance with Roche, and moved ahead with efficient activities linked to global clinical development trials in domestic development, leading to achievement of a high level of R&D productivity.

Under "IBI 18," the Group will give top priority to allocating resources to development and promotion of medical plans for emicizumab and atezolizumab, which are expected to play a key role in dramatic growth in the future with a view to obtaining approval early and building evidence. In addition, regarding global development projects comprising numerous products generated in-house, the Group will press ahead with early development with global top-class quality and speed under the promotion system for Translational Clinical Research (TCR) centered on three regions, namely Japan, the United States and Europe.

In order to promptly push ahead with global late-stage development of Chugai's drug discovery and development projects and market penetration in cooperation with Roche, where the Group licenses out products, or a third party, it is extremely vital to prove that Chugai's projects are attractive and show great potential both medically and economically by the completion phase of early development. To this end, the Group is also making efforts to strengthen the systems for generating and accumulating evidence through collaboration under a strategy for which the functions are integrated from the drug discovery stage.

(iii) Drug manufacturing

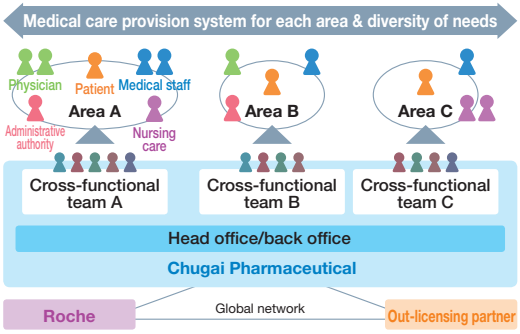
The Group has advanced manufacturing technologies such as biopharmaceuticals and stably supplies highly reliable

(iii) Drug manufacturing

Global simultaneous development of multiple products and accelerated market launches and strengthening of the system for cost reduction

(iv) Marketing, medical affairs and safety

Provide sophisticated and varied solutions through the collaboration and separation of functions



(v) Companywide initiatives

Accelerating efforts to obtain, nurture and assign human resources, the key to generating innovation and dealing with changes in the environment

pharmaceuticals. Going forward, the promotion of global simultaneous development of multiple products and accelerated market launches of numerous Chugai creations and R&D projects and the further enhancement of cost competitiveness are critical challenges.

Under "IBI 18," the Group has been moving ahead with setting up a flexible system for facilities and staff that supplies investigational drugs in a timely manner for promptly carrying out global simultaneous development of multiple products. At the same time, the Group has been working to further strengthen manufacturing technologies for R&D projects with a high degree of difficulty in formulation such as middle molecule drugs.

In addition, in order to realize high-value-added, low-cost manufacturing, the Group will promptly set up a production system that takes an integrated approach to the processes from late-stage development to early-stage production, and enhance quality control, quality assurance and regulatory functions that accurately respond to the trends of major global markets.

(iv) Marketing, medical affairs and safety

Amid the major challenge of providing sustainable medical care, the medical care provision environment has started to change significantly for the realization of optimal patient-centered medical care.

By effectively making the most of Avastin, Actemra, Alecensa and numerous other promising new products developed in-house or licensed-in from Roche, the Group has been building solid presences in the markets it entered for drugs in the oncology, renal disease, bone and joint disease, rheumatic diseases as well as other fields.

Going forward, it will be a critical challenge to further strengthen the system for providing solutions to meet the sophisticated and diversified needs of patients, medical care professionals, and other stakeholders while utilizing such foundation.

Under "IBI 18," the Group will move ahead with providing sophisticated information and resolving medical issues through the division and collaboration of functions centered on marketing, medical affairs and safety by conducting activities focused on growth driver products such as Actemra, Alecensa, Tecentriq and emicizumab in Japan and overseas. By doing so, the Group will aim to contribute to the realization of optimal medical care and accelerate its growth.

At the same time, the Group will work to establish a system for building and executing strategies by cross-functional teams for each area in order to push ahead with the provision of solutions according to the various characteristics of each country and region.

(v) Companywide initiatives

In dealing with the challenges mentioned so far, human resources that drive innovation while responding to a rapidly changing environment would be extremely important.

Under "IBI 18," the Group has been focusing on human resources as the most important theme for strengthening the foundation throughout the Company and moving ahead with selecting focus positions to be reinforced in order to accelerate innovation as well as obtaining, nurturing and assigning the right position filled by the right person.

In addition, the Group will continue to work on ensuring thorough compliance based on the highest ethical and moral standards as befits a corporate group involved in the healthcare industry and pursuing improvement of productivity.

By means of these initiatives, the Group is seeking to increase the value it provides to shareholders and all other stakeholders as it proceeds towards its objective of becoming a top pharmaceutical company.

During the period from 2015 through 2018, the final year of the medium-term business plan, the Group expects to achieve an average annual growth in its Core EPS (assuming at the average constant exchange rate of 2015) at a low single-digit rate (up to 3% range).

(7) Main Businesses (as of December 31, 2017)

The main businesses of the Group include the research, development, manufacturing, sale, importation and exportation of the pharmaceuticals.

(8) Principal Sales Offices, Plants and Research Laboratories (as of December 31, 2017)

[Domestic]

1. Registered office (5-1 Ukima 5-Chome, Kita-ku, Tokyo)
2. Headquarters' office (1-1 Nihonbashi-Muromachi 2-Chome, Chuo-ku, Tokyo)

<Sales branches>

3. Hokkaido and Tohoku RMO (Miyagi Pref.)
4. Kanto-Kita and Koshinetsu RMO (Saitama Pref.)
5. Kanto-Minami RMO (Tokyo)
6. Tokai and Hokuriku RMO (Aichi Pref.)
7. Kansai RMO (Osaka)
8. Chugoku and Shikoku RMO (Hiroshima Pref.)
9. Kyushu RMO (Fukuoka Pref.)

<Research & Development>

10. Fuji-Gotemba Research Laboratories (Shizuoka Pref.)
11. Kamakura Research Laboratories (Kanagawa Pref.)
12. Ukima Research Laboratories (Tokyo)

<Production>* Bases of Chugai Pharma Manufacturing Co., Ltd.

13. Utsunomiya Plant (Tochigi Pref.)
14. Ukima Plant (Tokyo)
15. Fujieda Plant (Shizuoka Pref.)

[Overseas]

<Sales, Research & Development>

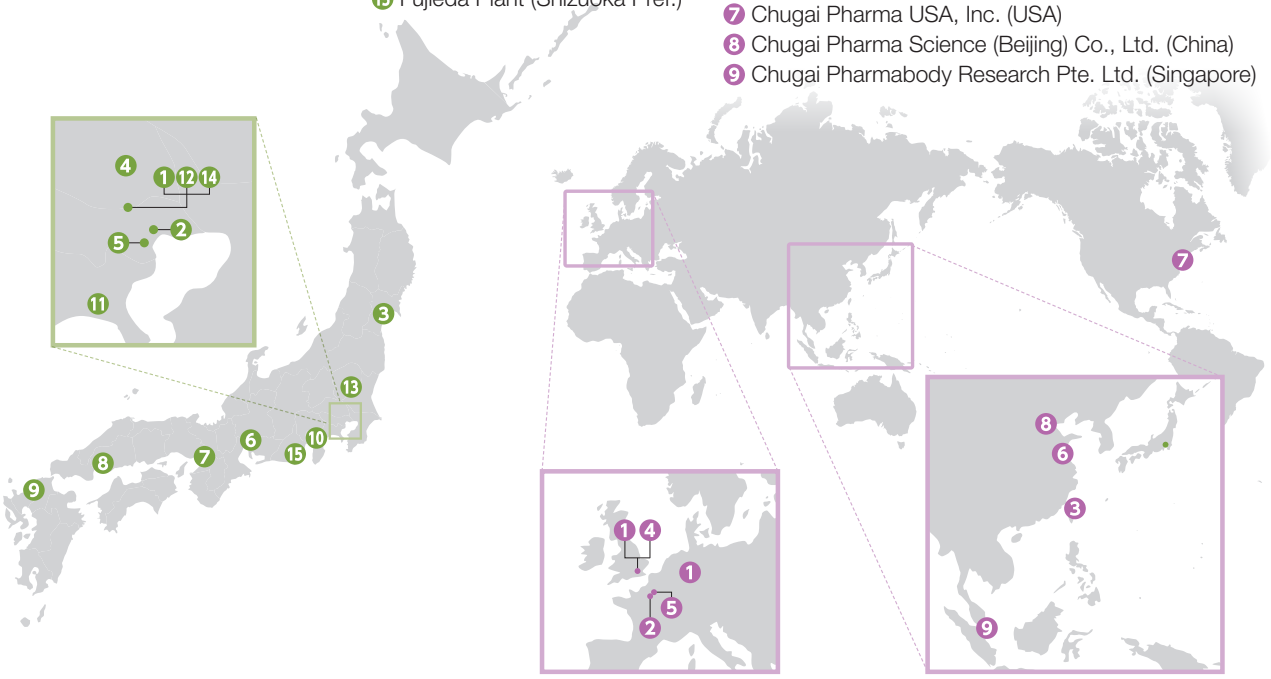
1. Chugai Pharma Europe Ltd. (UK, Germany)
2. Chugai sanofi-aventis S.N.C. (France)
3. Chugai Pharma Taiwan Ltd. (Taiwan)

<Sales>

4. Chugai Pharma U.K. Ltd. (UK)
5. Chugai Pharma France S.A.S. (France)
6. Chugai Pharma China Co., Ltd. (China)

<Research & Development>

7. Chugai Pharma USA, Inc. (USA)
8. Chugai Pharma Science (Beijing) Co., Ltd. (China)
9. Chugai Pharmabody Research Pte. Ltd. (Singapore)



(9) Employees (as of December 31, 2017)

Number of employees	Increase/decrease since end of previous fiscal year
7,372 persons	127 persons (Increase)

(Note) The number of employees above represents the number of persons in employment, which excludes individuals seconded from the Group to outside the Group, but includes individuals seconded to the Group from outside the Group.

(10) Parent Company and Principal Subsidiaries

a) Parent Company

The Company's parent company is Roche Holding Ltd. (Head Office: Switzerland), which holds 335,223,645 shares of the Company (shareholding percentage against total number of issued shares: 59.89%, or 61.30% when calculated based on the total number of issued shares excluding the number of treasury stock), based on a strategic alliance agreement between the two companies. However, the Company and Roche have agreed to cooperate in maintaining the listing of the Company's common stock on the First Section of the Tokyo Stock Exchange.

The aim of this strategic alliance is to establish a new business model that differs from conventional practices in corporate acquisitions and the formation of joint ventures.

Out of the 10 Directors of the Company, 3 Directors concurrently holds a position at the Roche Group. However, these members comprise less than half of management, and thus the Company recognizes that its management independence is ensured.

b) Transactions with Parent Company, etc.

The Company belongs to a corporate group (Roche Group) centering on Roche Holding Ltd., which is the Company's parent company.

Under the Japan Umbrella Rights Agreement signed in December 2001, the Company became the sole pharmaceutical business company of the Roche Group in Japan. The Company also has the preoption for the development and marketing in Japan of all development compounds advanced by Roche.

The Rest of the World Umbrella Rights Agreement (excluding Japan and South Korea) signed in May 2002 was revised and the Amended and Restated Rest of the World Umbrella Rights Agreement (excluding Japan, South Korea and Taiwan) was signed in August 2014. Under this Agreement, Roche has the preoption for the development and marketing of the Company's development compounds in overseas markets, excluding South Korea and Taiwan.

These umbrella agreements were signed with the approval of the Board of Directors.

Pursuant to these agreements, Roche and the Company have signed a series of separate agreements for certain specific products. Depending on the specific circumstances and the terms of the agreement, this may result in payments on an arm's length basis between Roche and the Company, for any or all of the following matters:

- Upfront payments, if a preoption to license a product is exercised
- Milestone payments, dependent upon the achievement of agreed performance targets
- Royalties on future product sales

In its business dealings with the Roche Group, the Company conducts fair transactions on an arm's length basis, and the Directors of the Company are of the judgment that it will not harm the interests of the Company and minority shareholders.

From the perspective of ensuring independence from the parent company, although Roche Holding Ltd. includes the Company in its consolidated accounts, the Company functions as an independent listed company and makes all of its own management decisions based on the principle of self-governance. Important decisions on the management of the Company are made by the Board of Directors, and each Director considers and makes decisions in the best interest of the Company and all of its shareholders including minority shareholders.

c) Principal Subsidiaries

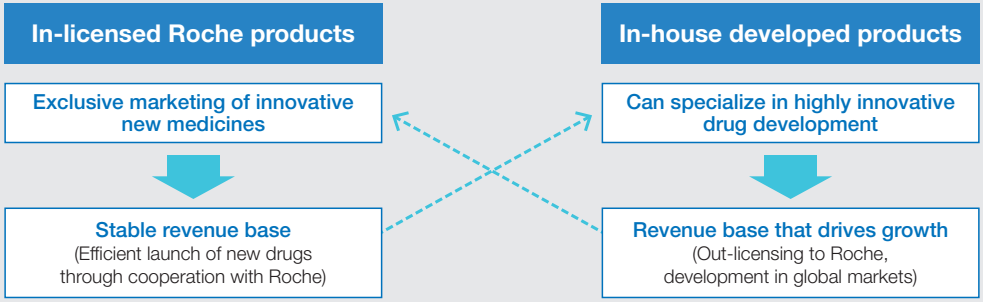
Name of Company	Capital	The Company's Shareholding Percentage	Main Business Activities
Chugai Pharma Manufacturing Co., Ltd.	JPY80 million	100%	Manufacturing of pharmaceuticals
Chugai Pharma Europe Ltd. (UK)	GBP8,677,808	100%	Marketing & Development of pharmaceuticals

There are 17 consolidated subsidiaries including the aforementioned two principal subsidiaries.

(11) Other Important Matters of the Group

The Company and TAIYO HOLDINGS CO., LTD. have entered into an agreement on November 14, under which the Company and F. Hoffmann-La Roche, Ltd. will transfer the marketing authorizations, including marketing and manufacturing rights, of 13 long-term listed products manufactured and marketed in Japan by the Company to TAIYO Pharma Co., Ltd., a wholly owned subsidiary of TAIYO HOLDINGS CO., LTD. The transfer of assets excluding inventories has been executed upon the fulfillment of the relevant closing conditions of the asset transfer agreement on January 5, 2018.

Reference **Two growth bases through strategic alliance with Roche**



The strategic alliance with Roche allows Chugai to in-license and sell Roche's groundbreaking therapies on an exclusive basis in Japan. This stable earnings foundation allows us to concentrate investment on highly innovative proprietary technologies and drug discovery. Moreover, out-licensing our in-house products to Roche gives us access to global markets, which provides a revenue base that drives growth. Meanwhile, the alliance enables Roche to sell our products – which we create through highly innovative, specialized research – in global markets. It is a win-win relationship.

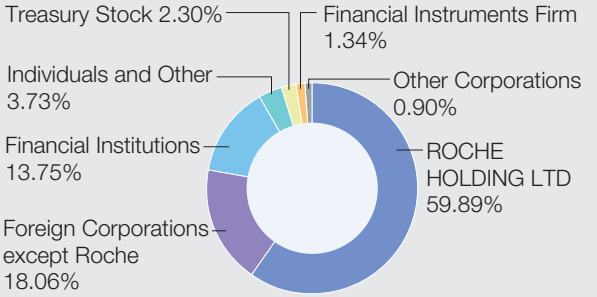
2 Company's Shares (as of December 31, 2017)

(1) Total Number of Authorized Shares 799,805,050 shares

(2) Total Number of the Issued Shares 559,685,889 shares
(Includes 12,909,947 shares of treasury stock)

(3) Number of Shareholders 20,732 shareholders

Reference **Ownership Profile**



(4) Major Shareholders (Top Ten)

Name of shareholder	Number of shares held (Thousands of shares)	Shareholding percentage (%)
ROCHE HOLDING LTD.	335,223	61.30
The Master Trust Bank of Japan, Ltd. (Trust Account)	25,154	4.60
Japan Trustee Services Bank, Ltd. (Trust Account)	16,386	2.99
JP MORGAN CHASE BANK 385147	16,087	2.94
JP MORGAN CHASE BANK 380055	9,151	1.67
STATE STREET BANK WEST CLIENT - TREATY 505234	4,262	0.77
Japan Trustee Services Bank, Ltd. (Trust Account 5)	3,975	0.72
Japan Trustee Services Bank, Ltd. (Trust Account 7)	3,794	0.69
JP MORGAN CHASE BANK 385632	3,792	0.69
MSCO CUSTOMER SECURITIES	3,219	0.58

(Notes) 1. The Company is excluded from the top ten major shareholders listed in the table above, although the Company holds 12,909 thousand shares of treasury stock.
2. Shareholding percentage indicated above was calculated based on the total number of the issued shares excluding the number of treasury stock.
3. Names of the shareholders indicated above are based on the General Shareholder Notifications of the Japan Securities Depository Center, Incorporated.

(5) Other Important Matters Concerning Shares

In the fiscal year under review, 123,000 shares of common stock were issued for the purpose of granting restricted stock and the same number of treasury stock was retired.

3 Company's Stock Acquisition Rights, etc.

Posted on the Company's website (https://www.chugai-pharm.co.jp/english/ir) in accordance with laws and regulations and Article 15 of the Articles of Incorporation of the Company.

A resolution was passed at the 106th Annual General Meeting of Shareholders held in March 2017 to introduce a restricted stock compensation system and abolish the compensation system in the form of stock options. For this reason, the Company has not issued new stock acquisition rights as stock options during the fiscal year under review.

4 Company's Officers

(1) Directors and Audit & Supervisory Board Members (as of December 31, 2017)

	Name	Position and Responsibility in the Company	Important Concurrent Positions
Executive Directors	Osamu Nagayama	Representative Director, Chairman & CEO	Outside Director and Chairman of the Board of Directors of SONY CORPORATION
	Motoo Ueno	Representative Director, Deputy Chairman Corporate Social Responsibility, Audit	
	Tatsuro Kosaka	Representative Director, President & COO	Outside Director of Asahi Group Holdings, Ltd.
	Yoshio Itaya	Director, Executive Vice President CFO, General Manager of Finance Supervisory Div., in charge of IT Supervisory Div.	
Non-Executive Directors	Yasuo Ikeda	Outside Director	Vice-Chairman of the Board of Directors, Musashi Academy of the Nezu Foundation Specially Appointed Professor of Waseda University Professor Emeritus of Keio University
	Masayuki Oku	Outside Director	Outside Director of Kao Corporation Outside Director of KOMATSU LTD. Outside Director of Panasonic Corporation Outside Corporate Auditor of Nankai Electric Railway Co., Ltd. Non-Executive Director of The Bank of East Asia (China)
	Yoichiro Ichimaru	Outside Director	Senior Advisor of Aioi Nissay Dowa Insurance Co., Ltd. Executive Advisor of TOYOTA MOTOR CORPORATION
	Christoph Franz	Director	Chairman of the Board of Directors of Roche Holding Ltd. Member of the Board of Directors of Stadler Rail (Switzerland) Member of the Board of Directors of Zurich Insurance Group Ltd (Switzerland)
	Daniel O'Day	Director	CEO of Roche Pharmaceuticals Division, Member of the Corporate Executive Committee, Member of the Genentech (USA) Board of Directors
	Sophie Kornowski-Bonnet	Director	Head of Roche Partnering, Member of Roche's Enlarged Corporate Executive Committee

	Name	Position and Responsibility in the Company	Important Concurrent Positions
Audit & Supervisory Board Members	Shunji Yokoyama	Full-time Audit & Supervisory Board Member	
	Mamoru Togashi	Full-time Audit & Supervisory Board Member	
	Hisashi Hara	Outside Audit & Supervisory Board Member	General Representative of the Asia-Pacific region, The Law Office of Nagashima Ohno & Tsunematsu
	Takaaki Nimura	Outside Audit & Supervisory Board Member	Representative of Nimura Certified Public Accountant Office Outside Director and Chairman of Audit Committee of SONY CORPORATION

(Notes) 1. Directors and Audit & Supervisory Board Members who retired or were newly appointed during the fiscal year under review are as follows:

<Retired>

Director	Yutaka Tanaka (retirement due to resignation on March 23, 2017)
Director	Franz B. Humer (retirement due to resignation on March 23, 2017)
Audit & Supervisory Board Member	Kunitoshi Watanabe (retirement due to expiration of term in office on March 23, 2017)

<Newly appointed>

Director	Yoichiro Ichimaru (assumed office on March 23, 2017)
Director	Christoph Franz (assumed office on March 23, 2017)
Audit & Supervisory Board Member	Mamoru Togashi (assumed office on March 23, 2017)

2. Directors Christoph Franz, Daniel O'Day and Sophie Kornowski-Bonnet are members of the executive committee of the Roche Group (including Genentech (USA)) and are Non-Executive Directors of the Company. The relationship between the Company and the Roche Group is as stated in "1. Overview of Consolidated Business Activities (10) Parent Company and Principal Subsidiaries."
3. Audit & Supervisory Board Member Takaaki Nimura is a Certified Public Accountant and has considerable expertise in finance and accounting.
4. The Company designated Directors Yasuo Ikeda, Masayuki Oku and Yoichiro Ichimaru and Audit & Supervisory Board Member Takaaki Nimura as independent officers as stipulated under the Tokyo Stock Exchange guideline, and registered them as such at the exchange.
5. With all Non-Executive Directors and all Audit & Supervisory Board Members, the Company has entered into an agreement that limits their liability if the liability for compensation of damages provided in Article 423, Paragraph 1 of the Companies Act fulfills the requirements set forth in laws and regulations (limited liability agreement). The limit of the liability for compensation of damages under such agreement is the minimum liability limit stipulated by laws and regulations.
6. Important concurrent positions indicated above were changed as follows as of January 1, 2018.

Audit & Supervisory Board Member	Hisashi Hara, Advisor, The Law Office of Nagashima Ohno & Tsunematsu

(2) Outside Corporate Officers

a) Company's Relationship with Companies Where Important Concurrent Positions Are Held

- In regards to the Law Office of Nagashima Ohno & Tsunematsu, where Audit & Supervisory Board Member Hisashi Hara concurrently serves, although the Company receives legal advices as necessary from counsels other than Audit & Supervisory Board Member Hisashi Hara, the amount of transactions between the said law firm and the Company is negligible.
- There is no relationship to be disclosed between the Company and entities where its Outside Corporate Officers hold concurrent positions, other than those indicated above.

b) Major Activities during the Fiscal Year under Review

	Name	Attendance at Meetings		Comments at Meetings of Board of Directors and Audit & Supervisory Board
		Board of Directors	Audit & Supervisory Board	
Outside Directors	Yasuo Ikeda	9 out of 9 meetings (100%)	—	Made suggestions and advice, etc. on the Company's management as necessary based on his extensive knowledge, experience, etc. as a doctor and professor.
Outside Directors	Masayuki Oku	9 out of 9 meetings (100%)	—	Made suggestions and advice, etc. on the Company's management as necessary based on his extensive knowledge, experience, etc. as a corporate manager.
Outside Directors	Yoichiro Ichimaru	7 out of 7 meetings (100%)	—	Made suggestions and advice, etc. on the Company's management as necessary based on his extensive knowledge, experience, etc. as a corporate manager.
Audit & Supervisory Board Members (Outside)	Hisashi Hara	9 out of 9 meetings (100%)	11 out of 11 meetings (100%)	Made comments, etc. on the Company's management as necessary based on his extensive experience, knowledge, etc. as an expert in corporate legal affairs (attorney at law).
Audit & Supervisory Board Members (Outside)	Takaaki Nimura	9 out of 9 meetings (100%)	11 out of 11 meetings (100%)	Made comments, etc. on the Company's management as necessary based on his extensive experience, knowledge, etc. as an expert in corporate accounting (certified public accountant).

(Note) The number of meetings attended by Director Yoichiro Ichimaru stated above refers to the number of meetings he attended after his assumption of office on March 23, 2017.

(3) Amount of Remuneration, etc. Paid to Directors and Audit & Supervisory Board Members

The Company has designed the remuneration for Directors and Audit & Supervisory Board Members with the intention of realizing sustainable increase of the Company's corporate value by securing superior human resources and giving appropriate motivation.

In order to further clarify the link between remuneration and the Company's business performance and shareholders' value and enhance the Directors' motivation and morale leading to the growth of the business results, remuneration for Executive Directors from Chugai consists of bonuses payable based on performance for each fiscal year and restricted stock compensation as a long-term incentive linked to mid-and long-term performance (tenure-based and performance-based), in addition to regular remuneration as fixed remuneration. Remuneration for Non-Executive Directors including Outside Directors and Audit & Supervisory Board Members consists solely of regular remuneration as fixed remuneration.

Remuneration for Directors and Audit & Supervisory Board Members is determined within the total amount resolved at the general meeting of shareholders. Remuneration for Directors is determined by the resolution of the Board of Directors, while remuneration for Audit & Supervisory Board Members is determined with the consultation of Audit & Supervisory Members. With respect to remuneration for individual Directors, transparency and objectivity of the decision-making process is secured by deliberating at the Compensation Committee consisting of at least three outside committee members, including one or more independent Outside Director appointed by the Board of Directors.

The retirement benefits system for Executive Directors has been abolished by the resolution passed at the 98th Annual General Meeting of Shareholders held in March 2009, and the retirement benefits system for Non-Executive Directors and Audit & Supervisory Board Members has been abolished by the resolution passed in the 95th Annual General Meeting of Shareholders held in March 2006.

Position	Total Remuneration, etc. (JPY millions)	Total Amount by Type of Remuneration, etc. (JPY million)						Number of Eligible Officers
		Regular Remuneration	Bonuses	Restricted Stock Compensation		Stock Options		
				Tenure -based	Performance -based	Common	Stock-based Compensation	
Directors (Excluding Outside Directors)	765	288	234	92	35	83	34	5
Outside Directors	45	45	—	—	—	—	—	4
Total	811	567		127		83	34	9
Audit & Supervisory Board Members (Excluding Audit & Supervisory Board Members (Outside))	63	63	—	—	—	—	—	3
Audit & Supervisory Board Members (Outside)	22	22	—	—	—	—	—	2
Total	85	85		—		—	—	5

(Notes) 1. The table above includes two Directors and one Audit & Supervisory Board Member who retired during the fiscal year under review.
2. The amount of remuneration, etc. (regular remuneration and bonuses) paid to all Directors was no more than JPY750 million per year as per the resolution passed in the 96th Annual General Meeting of Shareholders for the year ended December 31, 2006 held in March 2007.
Apart from this, the maximum amount of compensation paid to Directors (excluding Non-Executive Directors including Outside Directors) in the form of restricted stock compensation (tenure-based and performance-based) was no more than JPY345 million per year as per the resolution passed at the 106th Annual General Meeting of Shareholders for the year ended December 31, 2016 held in March 2017.
3. The amount of remuneration for all Audit & Supervisory Board Members was no more than JPY100 million per year as per the resolution passed at the 95th Annual General Meeting of Shareholders for the year ended December 31, 2005 held in March 2006.
4. The amounts of bonuses shown in the table above are the amount of provision for reserve for bonuses to directors for the fiscal year under review.
5. 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.
6. No new stock options have been granted in the fiscal year under review but the amount granted in the previous fiscal year that was posted as expenses in the current fiscal year is shown in Stock Options above.
7. A resolution was passed at the 98th Annual General Meeting of Shareholders for the year ended December 31, 2008 held in March 2009, to abolish the retirement benefits system for Executive Directors, and to pay retirement benefits corresponding to their residual term up to the abolishment of the system to each concerned Director remaining in office after the closing of the 98th Annual General Meeting of Shareholders for the year ended December 31, 2008, at the respective time of their retirement.
8. Apart from the JPY191 million in provision for reserve for bonuses to directors noted in the Business Report for the previous fiscal year as bonuses for directors for the previous fiscal year, JPY23 million was paid to five Directors (excluding Non-Executive Directors including Outside Directors) during the current fiscal year.

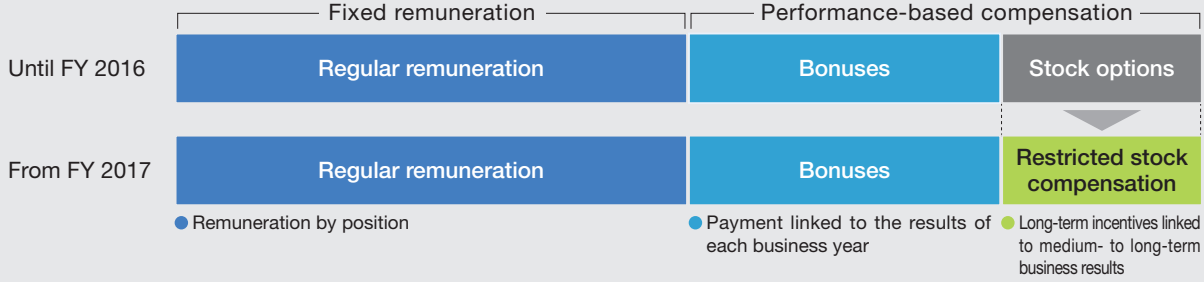
(4) Other Important Matters Concerning Company's Officers

There is no applicable information.

Reference Remuneration System for the Company's Directors and Audit & Supervisory Board Members

	Fixed remuneration	Performance-based compensation		
			Long-term incentive (stock compensation)	
	Regular remuneration	Bonuses	Tenure-based restricted stock compensation	Performance-based restricted stock compensation
Executive Directors	●	●	●	●
Non-Executive Directors (including Outside Directors)	●	—	—	—
Audit & Supervisory Board Members	●	—	—	—

Structure of remuneration for Executive Directors

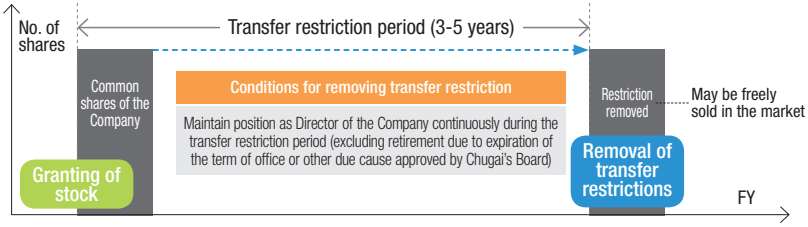


Reference The Company's Restricted Stock Compensation System

A resolution was passed at the 106th Annual General Meeting of Shareholders held in March 2017 to introduce a new remuneration system that uses two types of restricted stock as a replacement for the stock option compensation for the purpose of further promoting shared value with shareholders, and providing an incentive for the Company's Directors (excluding Non-Executive Directors) to sustainably increase the Company's corporate value, strengthening linkage between their remuneration and the Company's mid- and long-term business performance.

Tenure-based restricted stock compensation

On the condition that the eligible Directors maintain their positions as the Company's Directors continuously during the transfer restriction period, the Company shall remove the transfer restriction for the allotted shares at the expiration of the transfer restriction period.



Performance-based restricted stock compensation

Regarding the eligible Directors, in addition to fulfilling the above conditions for tenure-based restricted stock compensation, the Company shall remove the transfer restriction with respect to the number of the allotted shares to be decided according to the achievement level of the performance targets, at the expiry of the transfer restriction period.

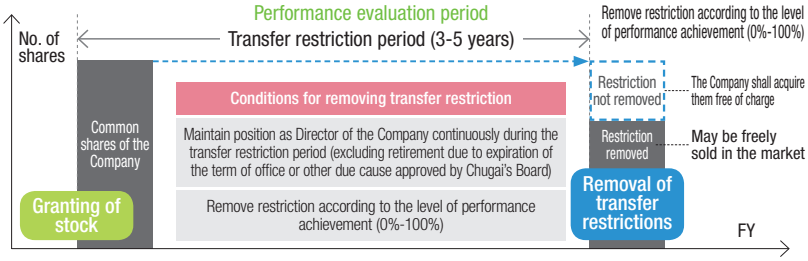
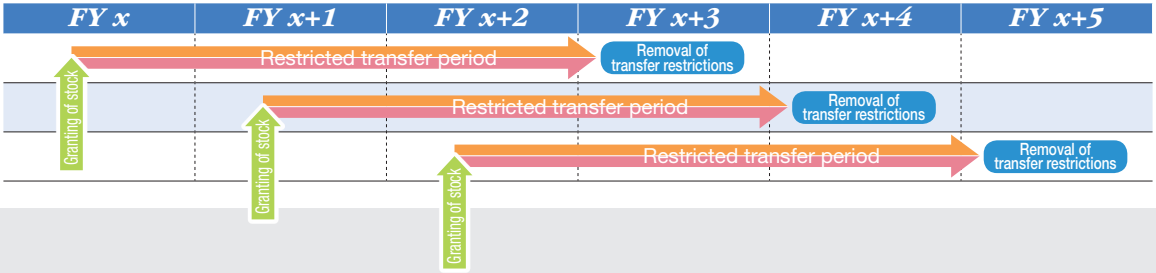


Image of granting remuneration over multiple years (in the case of a 3-year transfer restriction period)



5 Accounting Auditor

Posted on the Company's website (https://www.chugai-pharm.co.jp/english/ir) in accordance with laws and regulations and Article 15 of the Articles of Incorporation of the Company.

6 Framework to Ensure Operational Adequacy

Posted on the Company's website (https://www.chugai-pharm.co.jp/english/ir) in accordance with laws and regulations and Article 15 of the Articles of Incorporation of the Company.

(Notes) 1. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") pursuant to Article 120, Paragraph 1 of Ordinance of Company Accounting.
2. With regard to figures indicated in the Business Report, amounts less than the unit have been rounded off, whereas number of shares and shareholding percentages less than the unit have been rounded down.

Consolidated Financial Statements

Consolidated balance sheet (IFRS*) (As of December 31, 2017)

(Millions of yen)

Item	FY2017	FY2016(Reference)
Assets		
Non-current assets:		
Property, plant and equipment	171,569	157,081
Intangible assets	21,078	19,299
Financial non-current assets	11,350	9,706
Deferred tax assets	34,501	27,474
Other non-current assets	14,836	13,965
Total non-current assets	**253,333**	**227,525**
Current assets:		
Inventories	169,056	185,440
Accounts receivable	174,284	167,482
Current income tax assets	717	1
Marketable securities	104,018	110,176
Cash and cash equivalents	139,074	95,368
Other current assets	11,990	20,293
Total current assets	**599,141**	**578,760**
Total assets	**852,473**	**806,285**

Item	FY2017	FY2016(Reference)
Liabilities		
Non-current liabilities:		
Long-term debt	(207)	(510)
Deferred tax liabilities	(9,211)	(9,146)
Defined benefit plan liabilities	(9,292)	(8,790)
Long-term provisions	(2,041)	(2,140)
Other non-current liabilities	(15,923)	(15,543)
Total non-current liabilities	**(36,674)**	**(36,128)**
Current liabilities:		
Short-term debt	(129)	(135)
Current income tax liabilities	(18,541)	(10,533)
Short-term provisions	(79)	(76)
Accounts payable	(63,518)	(72,346)
Other current liabilities	(40,635)	(40,570)
Total current liabilities	**(122,902)**	**(123,660)**
Total liabilities	**(159,576)**	**(159,788)**
Total net assets	**692,897**	**646,497**
Equity:		
Capital and reserves attributable to Chugai shareholders	691,924	645,508
Equity attributable to non-controlling interests	973	989
Total equity	**692,897**	**646,497**

* International Financial Reporting Standards

Consolidated income statement (IFRS) (January 1, 2017 to December 31, 2017)

(Millions of yen)

Item	FY2017	FY2016(Reference)
Revenues	534,199	491,780
Sales	499,308	472,673
Royalties and other operating income	34,891	19,108
Cost of sales	(254,171)	(247,944)
Gross profit	280,028	243,836
Marketing and distribution	(72,800)	(69,770)
Research and development	(92,947)	(85,011)
General and administration	(15,347)	(12,171)
Operating profit	98,934	76,884
Financing costs	(110)	(86)
Other financial income (expense)	(87)	1,111
Other expense	(1,706)	(3,460)
Profit before taxes	97,031	74,448
Income taxes	(23,490)	(20,076)
Net income	73,541	54,372
Attributable to:		
Chugai shareholders	72,713	53,592
Non-controlling interests	827	780

Consolidated statement of changes in equity and notes to the consolidated financial statements have been posted on the Company's website in accordance with laws and regulations and Article 15 of the Articles of In-corporation of the Company.
CHUGAI website: https://www.chugai-pharm.co.jp/english/ir

Non-Consolidated Financial Statements

Non-consolidated balance sheet (JGAAP*) (As of December 31, 2017)

(Millions of yen)

Item	FY2017	FY2016(Reference)
Assets		
Total current assets:	587,328	546,360
Cash and deposits	105,576	73,580
Accounts receivable-trade	156,161	147,724
Marketable securities	96,000	95,998
Merchandise and finished goods	82,160	75,745
Raw materials and supplies	31,846	49,822
Prepaid expenses	3,664	3,834
Deferred tax assets	28,574	21,397
Short-term loans receivable from subsidiaries and affiliates	21,400	3,900
Accounts receivable-other	54,358	59,413
Other	7,590	14,947
Total non-current assets:	145,967	143,508
Total property, plant and equipment:	46,649	47,379
Buildings (net)	23,829	25,406
Structures (net)	797	874
Machinery and equipment (net)	1,123	1,735
Vehicles (net)	5	6
Tool, furniture and fixtures (net)	5,089	5,150
Land	9,147	9,147
Leases assets (net)	1	2
Construction in progress	6,658	5,058
Total intangible assets:	4,623	3,179
Software	2,208	1,475
Other	2,415	1,704
Total investments and other assets:	94,696	92,950
Investment securities	10,305	8,725
Stocks of subsidiaries and affiliates	55,108	56,071
Investments in capital of subsidiaries and affiliates	3,309	3,352
Long-term loans receivable from subsidiaries and affiliates	1,100	1,100
Long-term prepaid expenses	9,003	8,179
Deferred tax assets	11,421	10,327
Lease and guarantee deposits	4,254	3,963
Long-term accounts receivable-other	—	11
Other	338	1,363
Allowance for doubtful accounts	(142)	(142)
Total assets	733,295	689,868

Item	FY2017	FY2016(Reference)
Liabilities		
Total current liabilities:	117,621	115,348
Accounts payable-trade	43,463	42,148
Lease obligations	0	2
Accounts payable-other	242	3,933
Accrued expenses	39,622	39,153
Income taxes payable	20,043	10,192
Accrued consumption taxes	671	1,984
Deposits received	1,262	1,820
Provision for bonuses to employees	5,818	4,683
Provision for bonuses to directors	234	191
Provision for sales rebates	1,891	2,205
Provision for environmental matters	24	—
Provision for decommissioning and removal	—	76
Asset retirement obligations	7	—
Accrued payables – facilities	2,502	2,528
Other	1,841	6,436
Total non-current liabilities:	5,737	3,764
Lease obligations	0	1
Provision for employees' retirement benefits	3,096	1,583
Provision for directors' retirement benefits	598	598
Provision for environmental matters	—	12
Asset retirement obligations	1,379	1,345
Other	664	226
Total liabilities	123,358	119,111
Net assets		
Total shareholders' equity:	602,569	561,217
Capital stock	73,202	72,967
Total capital surplus	93,431	92,815
Legal capital surplus	93,050	92,815
Other capital surplus	381	348
Total retained earnings	466,169	426,849
Legal retained earnings	6,480	6,480
Other retained earnings	459,689	420,368
Reserve for advanced depreciation of non-current assets	709	725
General reserve	149,220	149,220
Retained earnings carried forward	309,760	270,423
Own equity instruments, at cost	(30,233)	(31,413)
Total valuation and translation adjustments:	5,640	7,702
Net unrealized gain on available-for-sale securities	5,359	4,128
Deferred gains or losses on hedges	281	3,574
Stock acquisition rights	1,728	1,837
Total net assets	609,937	570,756
Total liabilities and net assets	733,295	689,868

* Generally Accepted Accounting Principles in Japan

Non-consolidated income statement (JGAAP) (January 1, 2017 to December 31, 2017) (Millions of yen)

Item	FY2017	FY2016(Reference)
Revenues	526,052	486,903
Cost of sales	255,245	244,836
Gross profit	270,807	242,066
Total selling, general and administrative expenses	184,224	173,018
Operating income	86,583	69,048
Non-operating income:	6,728	5,801
Interest and dividend income	1,955	850
Other	4,773	4,952
Non-operating expenses:	1,538	1,561
Interest expenses	4	8
Other	1,534	1,552
Ordinary income	91,772	73,289
Extraordinary gain:	1,015	1,053
Gain on sales of non-current assets	1	0
Gain on litigation	1,003	—
Gain on liquidation of subsidiaries	11	—
Gain on sales of investment securities	—	1,053
Extraordinary loss:	2,002	3,482
Impairment loss	44	5
Adjustment from transfer pricing taxation	1,706	3,460
Loss on revaluation of investment securities	216	6
Loss on liquidation of subsidiaries	24	—
Provisions for environmental matters	13	12
Income before income taxes	90,786	70,860
Income taxes – current	28,427	20,459
Income taxes – deferred	(7,365)	(506)
Net income	69,723	50,907

Non-consolidated statement of changes in shareholders' equity and notes to the non-consolidated financial statements have been posted on the Company's website in accordance with laws and regulations and Article 15 of the Articles of In-corporation of the Company.
CHUGAI website: https://www.chugai-pharm.co.jp/english/ir

With regard to figures indicated in the Consolidated Financial Statements and the Non-Consolidated Financial Statements, amounts less than one million yen have been rounded.

Copy of the Accounting Auditors' Report on Consolidated Financial Statements (TRANSLATION)

Independent Auditors' Report

January 29, 2018

To the Board of Directors
Chugai Pharmaceutical Co., Ltd.

KPMG AZSA LLC
Hiroshi Shiina (seal)
Designated and Engagement Partner
with Limited Liability
Certified Public Accountant

Shigeo Kobayashi (seal)
Designated and Engagement Partner
with Limited Liability
Certified Public Accountant

Shinji Someha (seal)
Designated and Engagement Partner
with Limited Liability
Certified Public Accountant

Pursuant to Article 444, Paragraph 4, of the Companies Act, we have audited the consolidated financial statements, that is, the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity, and notes to the consolidated financial statements of Chugai Pharmaceutical Co., Ltd. (the "Company"), for the fiscal year from January 1, 2017 to December 31, 2017.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of consolidated financial statements in accordance with the provisions of the latter part of Article 120, Paragraph 1 of the Company Calculation Rules which allows companies to prepare consolidated financial statements with the omission of a part of the disclosures required under the International Financial Reporting Standards, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements from an independent standpoint based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit is not to express an opinion on the effectiveness of the entity's internal control, but in making risk assessments that the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the above consolidated financial statements, prepared with the omission of a part of the disclosures required under the International Financial Reporting Standards in accordance with the provisions of the latter half of Article 120, Paragraph 1 of the Company Calculation Rules, fairly present in every material aspect, the financial position and results of operations of the consolidated group consisting of the Company and its consolidated subsidiaries for the relevant term of the consolidated financial statements.

Conflicts of Interest
Our firm and engagement partners have no interests in the Company requiring disclosure under the provisions of the Certified Public Accountants Law.

Copy of the Accounting Auditors' Report

(TRANSLATION)

Independent Auditors' Report

January 29, 2018

To the Board of Directors
Chugai Pharmaceutical Co., Ltd.

KPMG AZSA LLC
Hiroshi Shiina (seal)
Designated and Engagement Partner
with Limited Liability
Certified Public Accountant

Shigeo Kobayashi (seal)
Designated and Engagement Partner
with Limited Liability
Certified Public Accountant

Shinji Someha (seal)
Designated and Engagement Partner
with Limited Liability
Certified Public Accountant

Pursuant to Article 436, Paragraph 2, Item 1 of the Companies Act, we have audited the non-consolidated financial statements, that is, the non-consolidated balance sheets, non-consolidated statements of income, non-consolidated statement of changes in net assets, and notes to the non-consolidated financial statements of Chugai Pharmaceutical Co., Ltd. (the "Company"), the fiscal year from January 1, 2017 to December 31, 2017, together with the supplementary schedules of the Company for the same year.

Management's Responsibility for the Non-consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these non-consolidated financial statements and supplementary schedules in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the non-consolidated financial statements and supplementary schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these non-consolidated financial statements and supplementary schedules from an independent standpoint based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the non-consolidated financial statements and supplementary schedules are free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements and supplementary schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the non-consolidated financial statements and supplementary schedules, whether due to fraud or error. The purpose of an audit is not to express an opinion on the effectiveness of the entity's internal control, but in making risk assessments that the auditor considers internal controls relevant to the entity's preparation and fair presentation of the non-consolidated financial statements and supplementary schedules in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the non-consolidated financial statements and supplementary schedules.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the above non-consolidated financial statements and supplementary schedules fairly present, in every material aspect, the financial position and results of operations of the Company for the relevant term of the non-consolidated financial statements, in accordance with the business accounting standards generally accepted in Japan.

Conflicts of Interest
Our firm and engagement partners have no interests in the Company requiring disclosure under the provisions of the Certified Public Accountants Law.

Copy of the Audit Report by the Audit & Supervisory Board

(TRANSLATION)

Audit Report

We, the Audit & Supervisory Board, hereby present this Audit Report compiled after deliberating the respective audit reports prepared by the Audit & Supervisory Board Members regarding the execution of duties by Directors for the fiscal year from January 1, 2017 to December 31, 2017:

1. Method and Description of Audits conducted by Audit & Supervisory Board Members and the Audit & Supervisory Board

(1) The Audit & Supervisory Board determined the auditing policies, auditing plans, etc. for the fiscal year under review and received reports on the execution status and results of audits from each Audit & Supervisory Board Member, in addition to receiving reports from Directors, etc. and the Accounting Auditor regarding the execution status of their duties and demanding an explanation from them if necessary.

(2) Pursuant to the Standards for Audits conducted by Audit & Supervisory Board Members established by the Audit & Supervisory Board, and in accordance with the auditing policies, auditing plans, etc. for the fiscal year under review, each Audit & Supervisory Board Member sought to communicate with Directors, the Audit Department and other employees, etc., endeavored to gather information and make improvements to the auditing environment and conducted audits in the following ways.

1) Each Audit & Supervisory Board Member attended meetings of the Board of Directors and other important meetings; received reports from Directors and employees, etc. regarding the execution status of their duties, and if necessary, demanded an explanation from them; reviewed documents regarding the approval of material matters, etc.; and investigated the status of the business operations and assets of the head office and major offices. In regards to subsidiaries, each Audit & Supervisory Board Member sought to communicate and exchange information with Directors and Audit & Supervisory Board Members of the subsidiaries, and if necessary, received reports on business operations from the subsidiaries.

2) Each Audit & Supervisory Board Member also received reports from Directors and employees, etc. on a regular basis, requested explanation on a necessary basis and represented his opinion on: (a) the nature of the Board of Directors' resolutions set forth in the business report to develop (i) a system to ensure that the Directors' duties are executed in compliance with laws, regulations and the Articles of Incorporation of the Company, and (ii) other systems required for ensuring the appropriateness of business operations of a corporate group, comprising its subsidiaries and other companies, as provided in Article 100, Paragraphs 1 and 3 of the Ordinance for Enforcement of the Companies Act; and (b) the status of construction and operation of systems (internal control systems) developed based on such resolutions.

3) Based on the status of deliberations by the Board of Directors and others, each Audit & Supervisory Board Member reviewed the contents of matters that were noted as stipulated in Article 118, Item 5 (a) of the Ordinance for Enforcement of the Companies Act, which are described in the business report, as well as judgment and reasons, which are set forth in (b) of the same item.

4) The Audit & Supervisory Board monitored and verified as to whether the Accounting Auditor conducted audits in an appropriate manner while maintaining an independent positioning, received reports from the Accounting Auditor on the execution status of its duties, and if necessary, demanded an explanation from the Accounting Auditor. We also received a notice from the Accounting Auditor that systems for ensuring the appropriate execution of duties by the accounting auditor set forth in each item of Article 131 of the Corporate Calculation Regulations have been developed in accordance with the Standards on Quality Control for Audits (Business Accounting Council), etc., and if necessary, demanded an explanation from the Accounting Auditor.

Based on the aforementioned methods, we reviewed the business report, its supplementary schedules and non-consolidated financial statements (non-consolidated balance sheets, non-consolidated statements of income, non-consolidated statement of changes in net assets and notes to the non-consolidated financial statements) together with the supplementary schedules for the same year as well as the consolidated financial statements (consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and notes to the consolidated financial statements) for the fiscal year under review.

2. Audit Results

(1) Results of Audit of Business Report, etc.

1) The business report and its supplementary schedules present fairly the Company's current position in compliance with laws, regulations and the Articles of Incorporation of the Company.

2) With respect to the execution of duties by Directors, there were no instances of misconduct or material matters in violation of the laws, regulations, or the Articles of Incorporation of the Company.

3) The resolutions of the Board of Directors regarding internal control systems are fair and reasonable in content. There are no matters to be pointed out in relation to the contents and Business Report and the execution of duties by Directors regarding the internal control systems.

4) In regards to transactions with the parent company, etc., stated in the business report, there are no matters to be pointed out in relation to the matters that were noted in order to prevent the said transactions from harming the interests of the Company and the judgment of the Board of Directors on said issue as well as the reason for said judgment.

(2) Results of Audit of Non-consolidated Financial Statements and Supplementary Schedules

The methods and results of audits conducted by the Accounting Auditor, KPMG AZSA LLC, are fair and reasonable.

(3) Results of Audit of Consolidated Financial Statements

The methods and results of audits conducted by the Accounting Auditor, KPMG AZSA LLC, are fair and reasonable.

January 31, 2018

Audit & Supervisory Board of Chugai Pharmaceutical Co., Ltd.

Audit & Supervisory Board Member (Full-time)
Shunji Yokoyama
Audit & Supervisory Board Member (Full-time)
Mamoru Togashi
Audit & Supervisory Board Member
Hisashi Hara
Audit & Supervisory Board Member
Takaaki Nimura

(Note) Audit & Supervisory Board Members Hisashi Hara and Takaaki Nimura are Audit & Supervisory Board Members (Outside) stipulated in Article 2, Item 16 and Article 335, Paragraph 3, of the Companies Act.

End

memo

Chugai will help to establish public trust in the Company as well as contribute to the sustainable development of society by working to create innovative drugs that address unmet medical needs.

Our View of CSR

To realize its mission, Chugai has established a Mission Statement that includes seven Core Values to be shared individually and across the Company in order to ensure sound business activities as we work toward our Envisioned Future. The Core Values also form the basis of the Chugai Business Conduct Guidelines (Chugai BCG), a code of behavior for management decision-making and for employees. The Chugai BCG are reflected in the activities of each business unit and serve as a foundation to support the execution of our mid-term business plan, IBI 1 8. We believe that corporate activities consistent with our Mission Statement and the Chugai BCG are the essence of our CSR.

TOPIC 1

Opening of Website for Cancer Patients in Generation AYA and Their Families
- For the Future of Adolescents and Young Adults Living with Cancer –

In March, the Company launched a new website for adolescent and young adult patients with cancer, “AYA’s Life,” aimed at “realizing cancer treatment that allows patients to confront cancer proactively and with hope.” In November, the Company renewed a part of the content, with the aim to respond to even more diverse needs through supporting cancer patients of the AYA Generation in terms of information.

*AYA: Adolescent and Young Adult (aged around 15-39)

■**AYA’s Life**

https://aya-life.jp/

(Only available in Japanese)

TOPIC 2

Donation of Welfare Vehicles Providing Transportation as Part of Home Welfare Services

Chugai has continued donating “specially-equipped para-transit vehicles” to welfare services since it was started as a part of Chugai’s 60th anniversary commemorative project in 1985, giving out vehicles that are used as a means of transport by elderly persons and physically disabled individuals who receive long-term nursing care at home. This year marks the 33rd year of this donation, and the total number of vehicles donated, including the five vehicles donated this time, reached 248. This project is carried out with the cooperation of the Japan National Council of Social Welfare and the Central Community Chest of Japan, and donation recipients consist of all prefectures.

[Sample image of a donated vehicle]

[The donation ceremony]

TOPIC 3

Inspiring and Supporting Sports Activities for the Disabled

Chugai works to spread the appeal of parasports to a wide range of parties, and supports parasports through various initiatives. Our efforts in 2017 are as follows.

Chugai Pharmaceutical 2017 Wheelchair Softball Tournament in Tokyo

Ten club teams founded in all over Japan, as well as a representative team from the U.S., participated in this event. We were blessed with fine autumn weather during the two days of the event, and a total of 25 exciting matches were held.

"The 2nd Chair Ski Class to be Enjoyed by Parents and Children" at Maiko Snow Resort

Chugai once again sponsored "The 2nd Chair Ski Class to be Enjoyed by Parents and Children" organized by the Japan Chair Ski Association, to support children with disabilities.

Wheelchair Tennis Camp 2017

Chugai sponsored the Wheelchair Tennis Camp 2017, where children, whether with disabilities or not, can play together. At this event organized by the Japan Wheelchair Sports Association, employees of the Group participated alongside Kanto Gakuin University students as volunteers.

TOPIC 4

Disaster Relief for the 2016 Kumamoto Earthquake and the Great East Japan Earthquake at Affected Locations

With the intent of supporting disaster-stricken areas, Chugai's employees have made donations through "Roche Children's Walk 2017" to Kumamoto's facilities for disabled individuals operated to support the rehabilitation of children in the aftermath of the Kumamoto Earthquake.

Chugai organized a merchandise sale supporting the recovery from the Great East Japan Earthquake at the head office and the Kamakura Office, as disaster support to the catastrophic event.

Promotion of Diversity & Inclusion that Allow a Rich Variety of Human Resources to Play Active Roles

In order for the diversity of human resources to become a value of the organization and to generate innovation, we will promote Diversity & Inclusion and realize our vision of a top pharmaceutical company.

Chugai Diversity Promotion Forum

Chugai has given priority to the promotion of Diversity & Inclusion to enable a rich variety of human resources to work enthusiastically and create new values. We began addressing this issue with the launch of a management working team in 2010 to promote gender diversity. Since establishing the Diversity Office in 2012, we have been carrying out initiatives on themes surrounding gender, nationality, and age. In addition to these three themes that have been addressed up until now, under IBI 18, we will also put inclusion into practice with a focus on the diversity of each and every individual and aim to enliven the organization and contribute to business results with diversity.

To promote active participation of women in the workplace, we have improved the working environment to support employees in balancing work with childcare and nursing care. Aside from training to nurture female leaders (Female Leaders' Program), we have also held returning-to-work seminars for employees who are in their life-event phase, a significant phase in the forming of their careers. In the 2014 "Commendation of Companies Promoting Gender Equality and Work-Family Balance," sponsored by the Ministry of Health, Labour and Welfare, Chugai was awarded both the Minister's Prize for Excellence (Companies promoting gender equality) and the Tokyo Labor Bureau Chief's Prize for Excellence (Family-friendly companies). We have set the percentage of female employees in management positions of 13% as an index, and will continue our initiatives to promote the success of women toward 2018.

We are also promoting the active participation of senior employees, through initiatives such as career training at the ages of 54 and 60, and to development an environment, raise awareness, and provide opportunities to exhibit their roles toward continued employment up to the age of 65. As for promoting diversity in nationality, we are accelerating the recruitment of non-Japanese employees. In addition, we are striving to create an environment in which non-Japanese employees can work together with other employees, through measures including distribution of information in bilingual formats and holding of gatherings, as well as training sessions for seniors overseeing non-Japanese employees.

Given the growing opportunities to work globally, working hours and locations have become more flexible. In addition to employees who are involved in childcare and nursing care, telecommuting is also used by those who frequently engage in teleconferencing with their overseas counterparts. From 2015, it became possible to use telecommuting for those who have difficulty commuting due to injuries or medical treatment, and for use with the aim of improving productivity. At the Chugai Diversity Promotion Forum, which has been held annually since 2013, top management and members in charge of promoting diversity in each division gather to discuss and share their progress of Diversity & Inclusion initiatives. We will further promote Diversity & Inclusion going forward so that our diverse group of employees can demonstrate their maximum potential and create innovation.

TOPIC

Selected as a "Nadeshiko Brand" for the Third Consecutive Year

Chugai was selected for three consecutive years since 2015 by the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange as a Nadeshiko Brand, a designation offered to companies with an exceptional record of promoting active participation of women in the workplace. Since fiscal year 2012, Nadeshiko Brand companies have been chosen by industry category, from among the firms listed on the First Section of the Tokyo Stock Exchange that are proactive in promoting the active participation of women in the workplace, including those which have an environment in place that supports career paths for women. Out of the firms that disclose information regarding their percentages of female managers as recorded in the Ministry of Health, Labour and Welfare's "Database of companies that promote female advancement," those that meet requirements in both the women's activeness survey scoring and the stipulated financial criteria (ROE) are eligible for selection.

Chugai has introduced a talent management system to assess our employees based on objective criteria, and to carry out assignment and development with the aim of discovering and optimizing the talents of our diverse group of employees in the workplace. As for supporting women in balancing work and family, we have striven to promote proper work hours. Even though the quality and quantity of business operations may continue to increase, we promote work-life synergy* and endeavor to reduce overtime work by enhancing productivity.

* In 2013, the labor and management of Chugai summarized its approach to achieving work/life balance under the concept of pursuing "work-life synergy," and we have been working to promote the understanding and dissemination of this concept among all of our employees.

Related performance data (Non-consolidated basis, as of December 31 of each year)

Chugai has given priority to the promotion of Diversity & Inclusion to enable a rich variety of human resources to work enthusiastically and create new values, and conducts various activities related to diversity.

	2015	2016	2017
Percentage of female employees	26.2%	26.5%	26.8%
Average age	Male: 43 years and 10 months old Female: 38 years and 2 months old	Male: 43 years and 9 months old Female: 38 years and 2 months old	Male: 44 years and 1 months old Female: 38 years and 6 months old
Average years of service	Male: 18 years and 3 months Female: 12 years and 5 months	Male: 18 years and 0 months Female: 12 years and 3 months	Male: 18 years and 3 months Female: 12 years and 8 months
Percentage of female managers	10.7%	11.3%	12.5%
Number of female officers	1	1	1
Children leave utilization rate	Male: 16.9% Female: 92.4%	Male: 28.8% Female: 100.0%	Male: 52.0% Female: 98.8%
Percentage of employees working under telecommuting system	Male: 7.1% Female: 18.1%	Male: 8.8% Female: 23.5%	Male: 13.0% Female: 29.7%

Communication with Shareholders and Investors

Chugai values dialogue with shareholders and investors, and fulfills its accountability to shareholders and investors through dialogue based on the policy, "In order to contribute to sustainable growth and the increase of corporate value over the mid- to long-term, Chugai will promote dialogue with shareholders and investors with a constructive purpose through the engagement of its directors and executives in various IR activities and SR activities." We incorporate their voices in management, and work to improve corporate value of the Company.

General meeting of shareholders

Unlike many Japanese companies, which have fiscal years ending in March, Chugai's fiscal year ends in December. Therefore, we hold our general meeting of shareholders in March instead of June when such meetings are concentrated. Convocation notices for the general meeting of shareholders are normally sent out more than four weeks prior to the meeting date.

On-demand video distribution of general meeting of shareholders

On-demand videos are distributed on the Company's website for shareholders who are not able to participate in the general meeting of shareholders. A video of this year's general meeting of shareholders is scheduled to be uploaded in early April. We hope that it would be found useful by shareholders. (Only available in Japanese)

IR activities

Coinciding with financial results announcements, Chugai holds information meetings and conference calls for investors and analysts. These meetings provide opportunities to explain the state of the Company's business directly to shareholders and investors. As events organized for investors and analysts, the President held the annual discussions with institutional investors and securities analysts in September, and in November Chugai held a tour to the UK3 facility, which is under construction at the Ukima Office site as a facility to produce high-mix low-volume of antibody API. We will continue to expand these face-to-face investor relations activities featuring senior management to properly convey Chugai's corporate value to the market.

In May, we conducted a factory tour for individual shareholders, a new initiative started in 2013 to increase shareholder communication. The tour of the Utsunomiya Plant, where our flagship product Actemra is produced, gave shareholders a first-hand view of the manufacturing process for the biopharmaceuticals that are one of Chugai's strengths.

Senior management also holds overseas roadshows and in 2017 visited institutional investors in Europe, the United States and Asia. Moreover, in addition to participating in domestic and overseas conferences hosted by securities companies, Chugai is enhancing its outreach to individual investors by holding briefing session for them at branches of securities companies throughout Japan.

The Chugai website is another tool to provide timely and fair disclosure to shareholders and other investors. Information on our website includes news releases, financial results, the status of our development pipeline, presentation materials, annual reports and an IR event calendar. We work to provide comprehensive information to our stakeholders. We focus on convenience for individual shareholders and investors by offering the option of receiving e-mail notices whenever news releases and other updates are posted on the IR section of our website, and other initiatives include posting webcasts of IR events on the website.

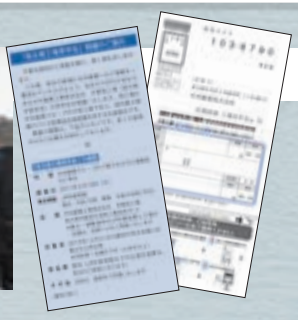
Shareholder survey

A report of the results of the shareholder survey that was included with the interim shareholder newsletter ("Kabunushi-tsushin") for fiscal year 2017 will be included in the shareholder newsletter for fiscal year 2017 that will be delivered in late March. We will utilize valuable opinions from shareholders as we strive to further enhance our IR and SR activities.

Contents for individual shareholders and investors

Story for a Better Understanding of Chugai Pharmaceutical

"Story for a Better Understanding of Chugai Pharmaceutical" that introduces Chugai Pharmaceutical in a manner that is easy to understand in three steps is available on the Company's website for individual shareholders and investors. Please visit the site. (Only available in Japanese)

Factory tour for shareholders

The factory tour for shareholders will be held this year as well. Information on this tour will be provided in the shareholder newsletter for fiscal year 2017 that will be delivered in late March. We look forward to everyone's application. (Participants will be chosen by drawing lots.)