

Dear Shareholders and Investors



Under our Mid-Term Business Plan, “Sunrise 2012,” we have been continuously working to establish a foundation for growth. In FY 2008, we made considerable progress towards this objective with the successful launches of major new products. We will continue to take advantage of our competitive edge in growth areas and biopharmaceuticals to make further advances in our operations and thus meet the expectations of all shareholders.

FY 2008 Results

Record-High Sales Excluding Tamiflu Foundation for Growth Established

In FY2008, Chugai reported a decline in both revenues and operating income, with revenues down 5.2% to ¥326.9 billion, and operating income down 22.6% to ¥51.6 billion. The steady expansion of our new product lineup, however, made FY2008 a year in which we solidified our base for the next stage of growth.

The biggest factor for the decline in revenues was the fall in sales of the anti-influenza agent Tamiflu (down ¥30.3 billion, a decrease of 78.3%). Other factors included the NHI price revision in April 2008 and continued competition facing our mainstay product, Epogin, as well as the termination of the marketing collaboration with sanofi-aventis.

Despite the negative impact from these special factors, in 2008 we saw a solid rise in sales of Actemra, an in-house developed driver for future growth, as we obtained its additional indication in Japan for the treatment of rheumatoid arthritis (RA). Other products made steady market penetration, including Avastin, Tarceva, and Copegus—all launched in 2007—as well as Xeloda and Herceptin, which obtained additional indications in 2007 and 2008. As a result, in the oncology field, Chugai seized the top share (15.8%)*¹ for the first time in the domestic market.

In FY2008, product sales excluding Tamiflu amounted to

¥313.4 billion, an increase of 6.5% from the previous year, the highest level for the Company in history. We also reported non-operating income owing to foreign exchange gain, as well as an extraordinary gain due to the settlement with Roche for co-development costs of Actemra. As a result, recurring profit decreased 15.4% to ¥57.3 billion, and net income decreased 2.0% to ¥39.3 billion.

*¹ IMS Pharmaceutical Market Statistics (Reimbursement price basis), Dec. 2008 MAT. The scope of the market is defined by Chugai.

New Policy on Profit Distribution Annual Dividends Raised to ¥34

In FY2008, total dividends paid during the year amounted to ¥34 per share, an increase of ¥4 from the previous year, and the consolidated dividend payout ratio was 47.2%, an increase of 6.2 percentage points from the previous year. Having reviewed our dividend policy, we will now aim to ensure a ratio of around 40%, while keeping dividend amounts stable. In the past, our goal was to ensure stable amounts and a consolidated ratio of 30% or more on average. However, taking into account the importance of further enhancing the return of profits to shareholders, and having achieved an average ratio that greatly exceeds this 30% target over the past five years, we increased the target ratio.



FY 2009 Outlook

Increased Sales and Income Expected in FY 2009 Due to Higher Sales of Growth Drivers

In FY2009, we expect revenues of ¥400 billion, up 22.4% year-on-year, driven by further growth of our major products. We project a 7.6% increase in product sales excluding Tamiflu to ¥337.3 billion.

For the year, we forecast sales of Tamiflu to reach ¥53.0 billion, up 531.0%, due to expected resumption of government stockpiling in FY2009 and the ongoing recovery of the prescription rate for seasonal influenza.

Our mainstay product Epogin is expected to continue facing stiff competition, but we will endeavor to maintain sales by expanding sales in the pre-dialysis market. Meanwhile, we are confident that Actemra will become another driver for future growth in addition to Avastin, Herceptin, and Pegasys/Copegus. Actemra, a product expected to become our next major growth driver, was launched in Europe in January 2009, clearing the first step toward becoming a global pharmaceutical product.

On the earnings side, we project a 22.1% increase in operating income to ¥63.0 billion, a 10.8% increase in recurring profit to ¥63.5 billion, and a 1.8% increase in net income to ¥40.0 billion. This is due to higher revenues, despite a 5.7% increase in SG&A owing to sales promotion activities and various post-marketing initiatives, such as safety measures, which are aimed at achieving further market penetration of our major products.

Chugai's Strategies

Difficult Business Conditions and a Focus on New Growth Areas

Today, the pharmaceutical industry faces a multitude of challenges. These include continued pressure around the world to reduce medical costs, depletion of new drug candidates, soaring R&D costs, expiration of patents for major products, and generic erosion. In response, leading pharmaceutical companies have embarked on large-scale investment initiatives, including mergers and acquisitions. In 2008, for example, Japanese pharmaceutical companies took actions to acquire overseas biotechnology firms and generic manufacturers. Companies are investing vast amounts for future development in the area of unmet medical needs^{*2}, which is expected to have high growth, as well as in antibody drugs and other biopharmaceuticals. Competition to ensure future growth is becoming increasingly intense.

^{*2} "Unmet medical needs" areas include cancer, rheumatoid arthritis, and chronic hepatitis C, where existing medicines make limited contributions and treatment satisfaction is low.

Chugai's Foundation for Growth

While various pharmaceutical companies are moving to tap new growth areas to cope with the difficult business environment, Chugai has already begun instituting dramatic transformations aimed for further growth.

Chugai has become the leading biopharmaceutical company in Japan because we took the initiative to develop the

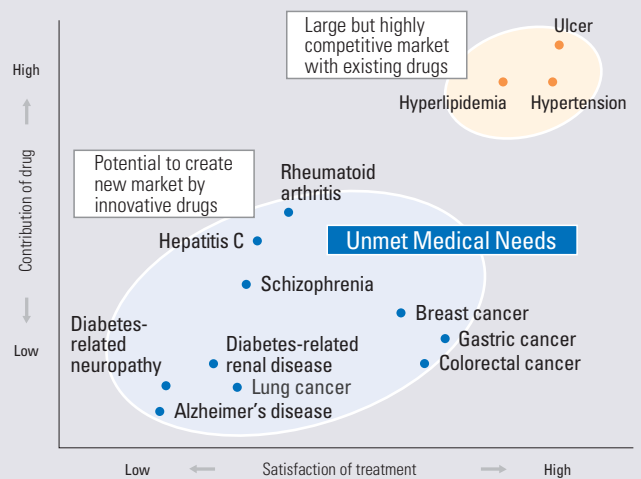
biopharmaceuticals Epogin and Neutrogen early in the 1980s and turned them into major products that are the core of our business. In the ensuing years, we broadened our research to encompass antibodies, resulting in the successful development and launch of the first antibody product originating in Japan, Actemra, an innovative new product drawing high expectation from around the world. In 2008, we commenced clinical development of the next antibody project from Chugai research following Actemra. I am glad to say that we have reached the stage where we possess a firm competitive advantage in the biopharmaceutical field.

Since our strategic alliance with Roche in 2002, we have acquired a rich development pipeline centering on the oncology field. Thus, we have greatly expanded our growth potential in the area of “unmet medical needs” in addition to RA, for which we have Actemra. Innovative new products, such as Avastin and Tarceva, which significantly contribute to medical treatments overseas, have been developed and launched successfully in Japan, dramatically strengthening our product portfolio. FY2008 was the year when we saw the fruits of the strategic alliance, as these new products started to make a full-scale contribution to our business performances.

Steady Progress of Sunrise 2012, Our Mid-Term Business Plan

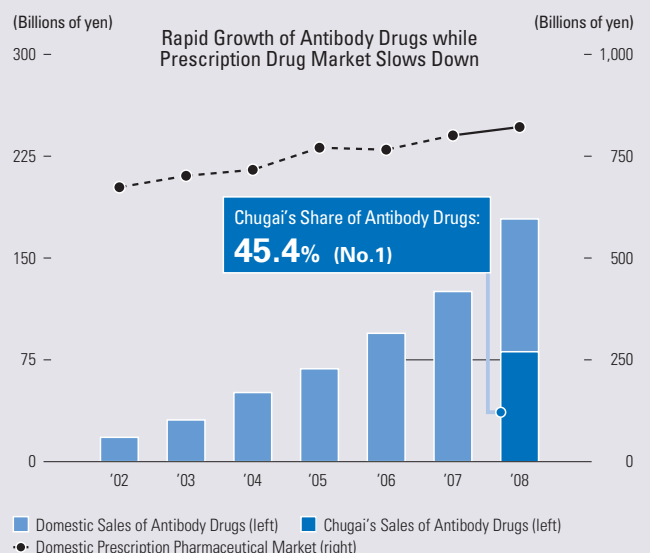
Under our Mid-Term Business Plan, Sunrise 2012, we are targeting ¥460 billion in consolidated revenues and ¥80 bil-

Unmet Medical Needs



Source: Report issued by Japan Health Science Foundation (revised by Chugai).

Chugai's Presence in the Domestic Antibody Market



Source: IMS Pharmaceutical Market Statistics (Reimbursement price basis), Dec. 2002-2008 MAT. Reproduction without consent is prohibited. Note: The scope of the market is defined by Chugai.



lion in operating income by FY2012. Building on our existing base of mainstay products, such as Epogin and Neutrogen, the plan calls for us to establish a firm foundation with our future growth drivers, such as Actemra, Avastin, Tarceva, Herceptin, Xeloda, and Pegasys/Copegus.

In order to achieve these targets, we have placed maximum priority on creating a strategic marketing system that will translate the high potential of our products into stronger earnings. As a result, our new products made steady market penetration in FY2008. We have also made good progress in development projects aimed at strengthening our growth foundation upon which Sunrise 2012 is based. In FY2009, we plan to file for approval of two new

compounds, R744 (overseas product name: Mircera) and ED-71. We will also seek to obtain additional indications for Epogin, Avastin, and Tarceva.

Aiming for Japan's Top Pharmaceutical Company

In order to reach the goals of Sunrise 2012 and generate further growth, it is paramount that all employees identify with our objective and take responsibility in their quest to create a top Japanese pharmaceutical company, carrying out proactive initiatives in all business functions. I believe that pursuing such initiatives dynamically and persistently is the key to transform ourselves into our envisioned company with improved business results, higher corporate value, and unshakeable confidence from stakeholders. This will serve as a cornerstone to enable our transformation. Placing our patients first, we will continue to make sincere efforts to meet the expectations of our shareholders through the creation of innovative medical products and services for the benefit of the medical community and human health around the world.

I would like to ask everyone for their continued understanding and support.

March 2008

Osamu Nagayama

Chairman, President and CEO

