NOTICE: For the convenience of capital market participants, Chugai makes efforts to provide English translations of the information disclosed in Japanese, provided that the Japanese original prevails over its English translation in the case of any discrepancy found between documentation.

FASF MEMBERSHIP

CHUGAI PHARMACEUTICAL CO., LTD.

A member of the Roche group

CONSOLIDATED FINANCIAL STATEMENTS (IFRS) (Non-Audited)

(for the fiscal year 2019)

Name of Company: Chugai Pharmaceutical Co., Ltd. January 30, 2020

Stock Listing: Tokyo Stock Exchange

Security Code No.: 4519 (URL https://www.chugai-pharm.co.jp/english)

Representative: Tatsuro Kosaka, President & CEO

Contact: Masahiko Uchida, General Manager of Corporate Communications Department

Phone: +81-(0)3-3273-0881

Date of Annual General Meeting of Shareholders: March 30, 2020

Date of Submission of Marketable Securities Filings: March 30, 2020

Date on which Dividend Payments to Commence: March 31, 2020

Supplementary Materials Prepared for the Financial Statements: Yes

Presentation Held to Explain the Financial Statements: Yes (for institutional investors, securities analysts and the media)

(Note: Amounts of less than one million yen are rounded.)

1. Consolidated results for FY 2019 (January 1, 2019–December 31, 2019)

(1) Consolidated operating results

	Revenues	% change	Operating profit	% change	Net income	% change
FY ended Dec. 2019	¥686,184 million	18.4	¥210,597 million	69.4	¥157,560 million	69.3
FY ended Dec. 2018	¥579,787 million	8.5	¥124,323 million	25.7	¥93,079 million	26.6

	Net income attributable to Chugai shareholders	% change	Total comprehensive income	% change
FY ended Dec. 2019	¥157,560 million	70.4	¥155,127 million	77.1
FY ended Dec. 2018	¥92,488 million	27.2	¥87,587 million	15.1

	Earnings per share (Basic)	Earnings per share (Diluted)
FY ended Dec. 2019	¥287.84	¥287.43
FY ended Dec. 2018	¥169.08	¥168.80

	Ratio of net income to equity attributable to Chugai shareholders	Ratio of operating profit to revenues
FY ended Dec. 2019	19.6%	30.7%
FY ended Dec. 2018	12.8%	21.4%

Note: Percentages represent changes compared with the same period of the previous fiscal year.

(2) Consolidated results (balance sheet)

	Total assets	Total equity	Equity attributable to Chugai shareholders	Ratio of equity attributable to Chugai shareholders	Equity per share attributable to Chugai shareholders
As of Dec. 31, 2019	¥1,058,915 million	¥853,985 million	¥853,985 million	80.6%	¥1,559.72
As of Dec. 31, 2018	¥919,548 million	¥756,529 million	¥755,864 million	82.2%	¥1,381.26

(3) Consolidated results (cash flow)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Balance of cash and cash equivalents
FY ended Dec. 31, 2019	¥206,641 million	¥(81,741) million	¥(66,872) million	¥203,941 million
FY ended Dec. 31, 2018	¥119,074 million	¥(74,060) million	¥(35,014) million	¥146,860 million

2. Dividends

	Annual dividends per share				
	End of first quarter	End of second quarter	End of third quarter	End of fiscal year	Total
FY ended Dec. 2018	–	¥31.00	–	¥55.00	¥86.00
FY ended Dec. 2019	–	¥48.00	–	¥92.00	¥140.00
FY ending Dec. 2020 (Forecast)	–	¥75.00	–	¥25.00	–

	Total dividends (annual)	Dividend payout ratio (consolidated)	Ratio of dividends to equity attributable to Chugai shareholders (consolidated)
FY ended Dec. 2018	¥47,057 million	50.9%	6.5%
FY ended Dec. 2019	¥76,647 million	48.6%	9.5%
FY ending Dec. 2020 (Forecast)		–%	

Note: Effective July 1, 2020, Chugai Pharmaceutical Co., Ltd. ("Chugai") has resolved to implement a three-for-one stock split of its common stock. The dividend forecast for the fiscal year ending December 31, 2020 presents the amount prior to the stock split for the end of the second quarter and the amount after the stock split for the end of the fiscal year. The annual dividends per share forecast is not stated because the amounts cannot be simply combined due to the implementation of the stock split. When calculated based on the assumption of no stock split, the year-end dividend is ¥75 and the annual dividend per share is ¥150. For further details, please refer to "Notice of Stock Split and Partial Amendment to the Articles of Incorporation" announced on January 21, 2020 and "Basic profit distribution principles and dividends for the fiscal year under review and the following fiscal year" on page 10 of the attached document.

3. Consolidated forecasts for FY 2020 (January 1, 2020–December 31, 2020)

	Revenues	% change	Core operating profit	% change	Core net income	% change
FY ending Dec. 2020 (Forecast)	¥740,000 million	+7.8	¥275,000 million	+22.3	¥201,000 million	+19.9
FY ended Dec. 2019 (Results)	¥686,184 million	+18.4	¥224,896 million	+72.6	¥167,632 million	+72.4

	Core earnings per share		Core dividend payout ratio %
FY ending Dec. 2020 (Forecast)	¥122.00	–	41.0
FY ended Dec. 2019 (Results)	¥305.80	+73.3	45.8

Notes: 1. Percentages shown for revenues, Core operating profit, Core net income and Core EPS represent changes from the same period of the previous fiscal year.

2. The figures for the consolidated forecasts and actuals are calculated based on Core basis indicators established by Chugai and used on a consistent basis. Core EPS is diluted earnings per share attributable to Chugai shareholders on a Core basis.

3. Effective July 1, 2020, Chugai has resolved to implement a three-for-one stock split of its common stock. Core EPS for the fiscal year ending December 31, 2020 (forecast) presents the amount after the stock split. The percentage change from the same period of the previous fiscal year for Core EPS is not presented because a simple comparison cannot be made. When calculated based on the assumption of no stock split, Core EPS is ¥366.00 (an increase of 19.7% year on year).

4. Others

(1) Changes in the state of material subsidiaries during the period (Changes in the state of specific subsidiaries with change in scope of consolidation): None

(2) Changes in accounting policies and changes in accounting estimates

(a) Changes in accounting policies required by IFRS: Yes

(b) Changes in accounting policies other than those in (a) above: None

(c) Changes in accounting estimates: None

(3) Number of shares issued (common stock):

(a) Number of shares issued at the end of the period (including treasury stock)	As of Dec. 31, 2019	559,685,889	As of Dec. 31, 2018	559,685,889
(b) Number of treasury stock at the end of the period	As of Dec. 31, 2019	12,162,354	As of Dec. 31, 2018	12,459,413
(c) Average number of shares issued during the period	FY ended Dec. 31, 2019	547,380,052	FY ended Dec. 31, 2018	547,023,692

Note: For an explanation of the number of shares used for computing earnings per share (consolidated), please refer to "Earnings per share" on page 23 of the attached document.

Notes:

The consolidated financial statements are not subject to audits.

Explanation of the appropriate use of performance forecasts and other related items

(1) Portions of this report that refer to performance forecasts or any other future events are believed to be reasonable under information available at the time of the forecasts. Actual results may differ from these forecasts due to potential risks and uncertainties.

(2) The forecast which is published for shareholders and investors is based on the internal management indicator Core basis under International Financial Reporting Standards ("IFRS"). The difference between IFRS results and Core results will be explained at each event and presentation for the period.

(3) For the specifics of the forecasts, please refer to "Future outlook" on page 9, "Basic profit distribution principles and dividends for the fiscal year under review and the following fiscal year" on page 10, and "Management Principles and Goals" on pages 11-14 of the attached document.

(4) Chugai is scheduled to hold a presentation of the financial statements as noted below. The materials, video, Q&A, and other related documents for the presentation for institutional investors and securities analysts will be posted on the Chugai's website following the conclusion of the presentation.

Presentation for the media (Japanese only): January 30, 2020, Thursday (Japan time).

Presentation for institutional investors and securities analysts (Japanese only): January 31, 2020, Friday (Japan time).

The English translation of the presentation materials will be posted on the website on the next business day.

Index of the Attachment

1. Overview of Operating Results, etc.

(1) Overview of operating results for the fiscal year under review in billions of yen

	Year ended December 31		
	2019	2018	% change
Core results			
Revenues	**686.2**	**579.8**	**+18.4**
Sales	588.9	527.8	+11.6
Royalties and other operating income	97.3	51.9	+87.5
Cost of sales	(265.1)	(261.9)	+1.2
Gross profit	**421.1**	**317.9**	**+32.5**
Marketing and distribution	(73.5)	(73.7)	(0.3)
Research and development	(102.1)	(94.2)	+8.4
General and administration	(20.6)	(19.7)	+4.6
Operating profit	**224.9**	**130.3**	**+72.6**
Net income	**167.6**	**97.3**	**+72.3**
IFRS results			
Revenues	686.2	579.8	+18.4
Operating profit	210.6	124.3	+69.4
Net income	157.6	93.1	+69.3

Consolidated financial highlights (IFRS results)

Revenues for the fiscal year under review were ¥686.2 billion (an increase of 18.4% year on year), operating profit for the fiscal year under review was ¥210.6 billion (an increase of 69.4% year on year), and net income for the fiscal year under review was ¥157.6 billion (an increase of 69.3% year on year). These results include non-Core items, such as amortization of intangible assets of ¥1.2 billion, impairment loss of intangible assets of ¥2.6 billion, special additional allowance and other expenses related to an early retirement incentive program of ¥5.1 billion, restructuring expenses of ¥2.8 billion and loss on litigation of ¥2.6 billion, which are excluded from the Core results that Chugai adopts to manage recurring business activities.

Consolidated financial highlights (Core results)

Revenues for the fiscal year under review were ¥686.2 billion (an increase of 18.4% year on year), due to increases both in sales and royalties and other operating income.

Of revenues, sales were ¥588.9 billion (an increase of 11.6% year on year), mainly due to increases in exports of Alecensa and Actemra to Roche, along with the favorable sales growth of domestic sales of new products as well as mainstay products in the Oncology area, mainstay products in the bone and joint diseases area and new products in other areas, etc. Royalties and other operating income amounted to ¥97.3 billion (an increase of 87.5% year on year), due to a large increase in royalties for Hemlibra and its profit-sharing income. Furthermore, cost to sales ratio was 45.0%, a 4.6 percentage point improvement year on year, due to a change in the product mix, etc. As a result, gross profit amounted to ¥421.1 billion (an increase of 32.5% year on year).

Operating expenses were ¥196.2 billion (an increase of 4.6% year on year). Marketing and distribution expenses were ¥73.5 billion (a decrease of 0.3% year on year). Research and development expenses amounted to ¥102.1 billion (an increase of 8.4% year on year) due to the progress of projects, etc. General and administrative expenses amounted to ¥20.6 billion (an increase of 4.6% year on year) primarily due to an increase in the enterprise tax (pro forma standard taxation). As a result, Core operating profit was ¥224.9 billion (an increase of 72.6% year on year) and Core net income was ¥167.6 billion (an increase of 72.3% year on year).

Meanwhile, compared to the revised forecast announced on October 24, 2019, revenues increased by 0.9% to ¥686.2 billion, cost to sales ratio improved by 0.2 percentage points to 45.0% and operating expenses decreased by 0.4% to ¥196.2 billion. As a result, Core operating profit increased by 3.2% to ¥224.9 billion, exceeding the revised forecast primarily due to an increase in export of Alecensa to Roche.

Note:
Regarding the revised consolidated forecasts please refer to "Notice of Revisions to Financial Forecasts" announced on October 24, 2019 and "Consolidated Forecasts and Other forward-looking Statements" on page 7 of the Consolidated Financial Statements for the Third Quarter of the Fiscal Year 2019.

Note: Core results
Chugai discloses its results on a Core basis from 2013 in conjunction with its transition to IFRS. Core results are the results after adjusting non-recurring items recognized by Chugai to IFRS results, and are consistent with the Core concept disclosed by Roche. Core results are used by Chugai as an internal performance indicator, for explaining the status of recurring profits both internally and externally, and as the basis for payment-by-results.

For further details regarding the adjustment to IFRS results, please refer to the Supplementary Materials on page 1, entitled "Reconciliation of IFRS results to Core results."

Sales breakdown in billions of yen

	Year ended December 31		
	2019	2018	% change
Sales	**588.9**	**527.8**	**+11.6**
Domestic sales	**437.6**	**399.9**	**+9.4**
Oncology	240.5	225.7	+6.6
Bone and joint diseases	108.4	100.5	+7.9
Renal diseases	34.6	36.3	(4.7)
Others	54.1	37.5	+44.3
Overseas sales	**151.3**	**127.9**	**+18.3**

Domestic sales
Domestic sales were ¥437.6 billion (an increase of 9.4% year on year) due to the favorable growth of new products as well as mainstay products in the Oncology area, mainstay products in the bone and joint diseases area and new products in the other areas, etc.

Oncology products sales were ¥240.5 billion (an increase of 6.6% year on year). This increase was due to the favorable sales of mainstay products, Perjeta (a HER2 dimerization inhibitory humanized monoclonal antibody, anti-cancer agent) and a new product, Tecentriq (an anti PD-L1 humanized monoclonal antibody, anti-cancer agent), despite a decrease in sales of Rituxan (an anti-CD20 monoclonal antibody, anti-cancer agent), etc. mainly as a result of the launch of its generic drug.

Bone and joint diseases products sales were ¥108.4 billion (an increase of 7.9% year on year). This was due to the steady performance of mainstay products such as Actemra (a humanized anti-human IL-6 receptor monoclonal antibody) and Edirol (an oral therapeutic agent for osteoporosis).

Renal diseases products sales amounted to ¥34.6 billion (a decrease of 4.7% year on year). Other products sales were ¥54.1 billion (an increase of 44.3% year on year) due to the favorable market penetration of a new product, Hemlibra (coagulation factor VIII substitute), despite the impact of the transfer of long-term listed products in the previous fiscal year.

Meanwhile, compared to the revised forecast announced on October 24, 2019, domestic sales increased by 0.1% to ¥437.6 billion.

Overseas sales
Overseas sales amounted to ¥151.3 billion (an increase of 18.3% year on year) due to increases in exports of Actemra and Alecensa to Roche. This represents a 1.5% increase compared to the revised forecast announced on October 24, 2019.

R&D activities

In Japan and overseas, the Chugai Group ("the 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 and Kamakura, which are collaborating to develop new pharmaceuticals, and its research facilities in Ukima 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) is engaged in pharmaceutical research and development.

In the fiscal year under review, R&D expenses on a Core basis totaled ¥102.1 billion.

Progress made in R&D activities during the period from January 1, 2019 to December 31, 2019 was as follows.

Oncology

- We obtained approval for the ROS1/TRK inhibitor RG6268 (Product name: Rozlytrek) for the indication of *NTRK* fusion-positive advanced/recurrent solid tumors in June and launched in September, 2019. We filed an application for the expected indication of non-small cell lung cancer (NSCLC) in March, 2019.
- We obtained approval for the engineered anti-PD-L1 monoclonal antibody RG7446 (Product name: Tecentriq) for the additional indications of extensive-stage small cell lung cancer in August and PD-L1-positive, hormone receptor-negative and HER2-negative inoperable or metastatic breast cancer in September, 2019, respectively. We started Phase III multinational studies for Tecentriq for the expected indication of NSCLC (neoadjuvant) in May, 2019 and hepatocellular carcinoma (adjuvant) in December, 2019, respectively. We decided to discontinue the development for prostate cancer considering the results of Phase III multinational study (IMbassador250).
- We filed anti-HER2 antibody-tubulin polymerization inhibitor conjugate RG3502 (Product name: Kadcyla) for adjuvant therapy in patients with HER2-positive early breast cancer in August, 2019.
- We started Phase III multinational study for the anti-VEGF (vascular endothelial growth factor) humanized monoclonal antibody RG435 (Product name: Avastin) for the expected indication of hepatocellular carcinoma (adjuvant), in combination with RG7446, in December, 2019.
- We started Phase I study for the anti-FAP humanized antibody-engineered IL-2 variant fusion protein RG7461 for the expected indication of solid tumors in October, 2019.
- We started Phase I study for the anti-TIGIT human monoclonal antibody RG6058 for the expected indication of solid tumors in November, 2019.

Autoimmune Diseases

- We started Phase I study for human IL-22 fusion protein RG7880 for the expected indication of inflammatory bowel disease in July, 2019.
- We decided to discontinue the development of the humanized anti-human IL-6 receptor monoclonal antibody MRA/RG1569 for systemic sclerosis considering the results of Phase III multinational study (focuSSced).

Neurology

- We filed anti-IL-6 receptor recycling antibody SA237/RG6168 for the expected indication of neuromyelitis optica spectrum disorder in the EU (August, 2019), the US and Japan (November, 2019).
- We started Phase III multinational study for the antisense oligonucleotide targeting *HTT* mRNA RG6042 for the expected indication of Huntington's disease in March, 2019.
- We started Phase I study for RG7906 for the expected indication of psychiatric disorders in January, 2019.
- We started Phase I study for the anti-tau humanized monoclonal antibody RG6100 for the expected indication of Alzheimer's disease in April, 2019.
- We started Phase I study for vasopressin 1a receptor antagonist RG7314 for the expected indication of autism spectrum disorder in May, 2019.
- We decided to discontinue the development of the anti-amyloid-beta humanized monoclonal antibody RG7412 for Alzheimer's disease in consideration of the results of Phase III multinational studies (CREAD1 and CREAD2).

Other diseases

- We obtained approval of the anti-FIXa/FX bispecific antibody ACE910/RG6013 (Product name: Hemlibra) for routine prophylactic treatment for adults or children with hemophilia A without inhibitors to factor VIII, administered once weekly, every two weeks, or every four weeks, as well as for additional dosing options of every two weeks or every four weeks in adults or children with hemophilia A with factor VIII inhibitors in Europe in March, 2019.
- We started Phase III multinational study for the anti-VEGF/Ang2 bispecific antibody RG7716 for the expected indication of wet age-related macular degeneration in February, 2019.

- We started Phase I/II study for anti-FIXa/FX bispecific antibody NXT007 for the expected indication of hemophilia A in August, 2019.
- We decided to temporarily suspend the development of the anti-IL-31 receptor A humanized monoclonal antibody CIM331 for pruritus in dialysis patients as a result of reviewing the priorities of the development portfolio, and removed it from the pipeline.

Note: In (1), amounts less than ¥0.1 billion have been rounded to the nearest ¥0.1 billion. Figures for changes in amounts and percentages have been calculated using data denominated in ¥0.1 billion units.

(2) Overview of financial position for the fiscal year under review in billions of yen

	December 31, 2019	December 31, 2018	% change
Net operating assets (NOA) and Net assets			
Net working capital	237.2	235.1	+0.9
Long-term net operating assets	309.8	270.1	+14.7
Net operating assets (NOA)	**547.0**	**505.3**	**+8.3**
Net cash	333.1	249.2	+33.7
Other non-operating assets – net	(26.1)	2.1	—
Total net assets	**854.0**	**756.5**	**+12.9**
Consolidated balance sheet (IFRS basis)			
Total assets	1,058.9	919.5	+15.2
Total liabilities	(204.9)	(163.0)	+25.7
Total net assets	854.0	756.5	+12.9

From the fiscal year under review, the Group has implemented IFRS 16 ‘Leases’. As a result, leased assets, including right-of-use asset, lease receivable and so on totalling ¥ 15.2 billion and lease liabilities totaling ¥ 14.6 billion have been recorded on the balance sheet, effective 1 January 2019. Please refer to “Changes in accounting policies” on page 20.

Net operating assets (NOA) at December 31, 2019 were ¥547.0 billion, an increase of ¥41.7 billion since the end of the previous fiscal year. Of NOA, net working capital was ¥237.2 billion (an increase of ¥2.1 billion since the end of the previous fiscal year), due mainly to the increases in other accounts receivable for royalties of Hemlibra as well as settlement of other accounts payable for long-term prepaid expenses for outsourcing of manufacturing, despite a decrease in accounts receivable. Long-term operating assets increased by ¥39.7 billion to ¥309.8 billion since the end of the previous fiscal year, due to the investment in the Chugai Life Science Park Yokohama and an increase in right-of-use assets.

As indicated in “(3) Overview of cash flows for the fiscal year under review” on the next page, net cash, including marketable securities and interest-bearing debt, increased by ¥83.9 billion since the end of the previous fiscal year to ¥333.1 billion. Other non-operating assets – net decreased by ¥28.2 billion since the end of the previous fiscal year to ¥(26.1) billion, due mainly to increases in current income tax liabilities and lease liabilities.

As a consequence, total net assets were ¥854.0 billion (an increase of ¥97.5 billion since the end of the previous fiscal year).

Note: Net operating assets (NOA) and Net assets
The consolidated balance sheet has been prepared in accordance with International Accounting Standards (IAS) No. 1, “Presentation of Financial Statements.” On the other hand, Net operating assets (NOA) and Net assets are a reconfiguration of the consolidated balance sheet as internal indicators and are identical to the indicators disclosed by Roche. Furthermore, no items from Net operating assets (NOA) and Net assets have been excluded, as the Core results concept only applies to the income statement.

For further details, please refer to the Supplementary Materials on page 8, entitled “Financial position.”

Note: Net operating assets (NOA)
Net operating assets allow for an assessment of the Group’s operating performance of the business independently from financing and tax activities. Net operating assets are calculated as net working capital, long-term net operating assets that includes property, plant and equipment, intangible assets etc. minus provisions.

Note: In (2), amounts less than ¥0.1 billion have been rounded to the nearest ¥0.1 billion. Figures for changes in amounts and percentages have been calculated using data denominated in ¥0.1 billion units.

(3) Overview of cash flows for the fiscal year under review in billions of yen

	Year ended December 31		
	2019	2018	% change
Free cash flows			
Operating profit - IFRS basis	210.6	124.3	+69.4
Operating profit, net of operating cash adjustments	245.2	147.4	+66.4
Operating free cash flows	181.4	74.3	+144.1
Free cash flows	**142.6**	**43.7**	**+226.3**
Net change in net cash	83.9	6.4	13.1 times
Consolidated statement of cash flows (IFRS basis)			
Cash flows from operating activities	206.6	119.1	+73.5
Cash flows from investing activities	(81.7)	(74.1)	+10.3
Cash flows from financing activities	(66.9)	(35.0)	+91.1
Net change in cash and cash equivalents	57.0	7.8	+630.8
Cash and cash equivalents at December 31	203.9	146.9	+38.8

Operating profit, net of operating cash adjustments, amounted to ¥245.2 billion (an increase of 66.4% year on year), which was calculated by adjusting for depreciation and other items that are included in operating profit but are not accompanied by cash inflows or outflows and all inflows and outflows related to NOA that are not accompanied by profit and loss. Operating free cash flows for the fiscal year under review amounted to a net inflow of ¥181.4 billion (an increase of 144.1% year on year) due to a significant increase in operating profit, etc., despite expenditures of ¥61.2 billion for the purchase of property, plant and equipment and intangible assets. With the application of IFRS 16 “Leases,” operating free cash flows include expenditures of ¥8.9 billion for lease liabilities paid.

Free cash flows were a net cash inflow of ¥142.6 billion (an increase of 226.3% year on year) due mainly to income taxes paid of ¥34.8 billion, settlement for transfer pricing taxation of ¥3.1 billion, and payments made for defined benefit plans of ¥11.5 billion paid from operating free cash flows.

The net change in net cash calculated by subtracting dividends paid of ¥56.4 billion and purchase of non-controlling interests of ¥2.3 billion, etc. from free cash flows was an increase of ¥83.9 billion.

The net change in cash and cash equivalents, excluding changes in marketable securities and interest-bearing debt, was a net cash inflow of ¥57.0 billion. The cash and cash equivalents balance at the end of this period amounted to ¥203.9 billion.

Note: Free cash flows (FCF)
The consolidated statement of cash flows has been prepared in accordance with International Accounting Standard (IAS) No. 7, “Statement of Cash Flows.” FCF is a reconfiguration of the consolidated statement of cash flows as internal indicators and is identical to the indicators disclosed by Roche. Furthermore, no items from FCF have been excluded, as the Core results concept only applies to the income statement.

For further details, please refer to the Supplementary Materials on page 9, entitled “Cash flows.”

Cash flow related indicators

	Year ended December 31			
	2019	2018	2017	2016
Ratio of equity attributable to Chugai shareholders (%)	80.6	82.2	81.2	80.1
Ratio of equity attributable to Chugai shareholders on a market basis (%)	521.2	379.7	370.1	227.3
Interest-bearing debt to cash flows ratio (%)	–	0.2	0.3	1.7
Interest-coverage ratio (times)	7,537.5	26,274.1	19,772.7	4,708.4

Ratio of equity attributable to Chugai shareholders: Equity attributable to Chugai shareholders / Total assets
Ratio of equity attributable to Chugai shareholders on a market basis: Total market capitalization / Total assets
Interest-bearing debt to cash flows ratio: Interest-bearing debt / Cash flows
Interest-coverage ratio: Cash flows / Interest payments

Notes:
1. All of the figures in the aforementioned indicators were calculated on a consolidated basis.
2. Total market capitalization was calculated by multiplying the closing stock price at the end of the period by the total number of outstanding shares at the end of the period (excluding treasury stock).
3. Cash flows from operating activities in the consolidated statement of cash flows were used as cash flows in the calculations above.
4. Interest-bearing debt refers to all debt posted in the consolidated balance sheet upon which interest is paid.
5. Interest paid in the consolidated statement of cash flows was used as interest payment in the calculations above.

Note: In (3), amounts less than ¥0.1 billion have been rounded to the nearest ¥0.1 billion. Figures for changes in amounts and percentages have been calculated using data denominated in ¥0.1 billion units.

(4) Future outlook

Forecast assumptions

In preparing Chugai performance outlook, Chugai has assumed exchange rates of ¥110/CHF, ¥121/EUR, ¥107/USD, and ¥80/SGD.

Outlook for the fiscal year

Revenues

The negative impact from NHI drug price revisions and intensifying competition associated with launches of biosimilars and generics will exceed the sales growth in new products such as Tecentriq or Hemlibra, etc., which will result in ¥411.6 billion (a decrease of 5.9% year on year) of Domestic sales.

Overseas sales are expected to increase to the amount of ¥168.4 billion (an increase of 11.3% year on year), mainly due to the commencement of exports of Hemlibra at a regular shipment price.

Royalties and other operating income are expected to reach ¥160.0 billion (an increase of 64.4% year on year). Royalty and profit-sharing income are forecasted to rise to ¥141.0 billion (an increase of 84.3% year on year) because of increases in royalties from Roche mainly for Hemlibra. Other operating income is expected to decrease to ¥19.0 billion (a decrease of 8.7% year on year) due to a decrease of one-time income.

Core Operating Profit / Core EPS

Gross profit is expected to rise to ¥488.0 billion (an increase of 15.9% year on year) mainly due to the increase in these revenues. On the other hand, total expenses are expected to be the amount of ¥213.0 billion (a ¥16.8 billion increase compared to the previous year). Particularly, expenses for research and development are expected to increase to ¥115.0 billion (an increase of ¥12.9 billion year on year) mainly due to the increase of research and development activities such as progress in development themes and related increases in the manufacturing expenses of investigational drugs, etc.

Core operating profit is expected to be ¥275.0 billion (an increase of 22.3% year on year) and Core net income is expected to be ¥201.0 billion (an increase of 19.9% year on year). Core EPS is forecasted to be ¥122.00 (the figure after the stock split; Core EPS calculated based on the assumption of no stock split is ¥366.00 with an increase of 19.7% year on year).

(Billions of yen)

	Outlook for FY 2020	% change
Revenues	740.0	+7.8
Sales	580.0	(1.5)
Core operating profit	275.0	+22.3
Core net income	201.0	+19.9

Note: In (4), amounts less than ¥0.1 billion have been rounded to the nearest ¥0.1 billion. Figures for changes in amounts and percentages have been calculated using data denominated in ¥0.1 billion units.

(5) Basic profit distribution principles and dividends for the fiscal year under review and the following fiscal year

Basic profit distribution principles and dividends for the fiscal year under review

Regarding income distribution, taking into account the strategic funding needs and earnings prospects, Chugai 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 opportunities.

In the fiscal year ended December 31, 2019, Chugai achieved the highest results in the past, which resulted in Core EPS increasing by 73.3% year on year.

Reflecting the favorable results and based on our principles of “aiming a consolidated dividend payout ratio of 50% on average in comparison with Core EPS to provide a stable allocation of profit,” year-end dividends for the fiscal year ended December 31, 2019 are planned to be ¥92 per share (including special dividends of ¥44). As a result, total dividends for the fiscal year under review will be ¥140 per share, and the Core dividend payout ratio is 45.8% (an average of 47.4% for the past five years).

	Amount decided	Latest forecast for dividend (October 24, 2019)	Actual in the previous fiscal year (ended Dec. 31, 2018)
Record date	December 31, 2019	December 31, 2019	December 31, 2018
Dividends per share	¥92.00	Undecided	¥55.00
Total dividends	¥50,372 million	—	¥30,097 million
Effective date	March 31, 2020	—	March 29, 2019
Dividend resource	Retained earnings	—	Retained earnings

Basic profit distribution principles and dividend forecast for the following fiscal year

The domestic market environment is becoming harsher due to mounting pressure to curb healthcare costs and the emergence of biosimilars and generic products, while the global market is turning into a market where the weakest go to the wall, as new groundbreaking drugs have brought about rapid changes in positions within the industry. Given these markets, the volatility and uncertainty surrounding corporate operating performance is only increasing. Furthermore, the development of life science and digital technologies has been intensifying inter-business competition beyond industry boundaries, and it has become necessary to secure a financial base solid enough to support flexible and focused strategic investment in order to take bold challenges for innovation and establish and maintain the competitive advantage. However, by changing the consolidated dividend payout ratio in comparison with Core EPS from “50% on average” to “45% on average,” we believe that we can maintain the objective of continuing providing a stable allocation of profit to all shareholders even in this business environment. As such, we ask for your continued understanding.

Also, as already mentioned, Chugai passed a resolution “to implement a three-for-one stock split of its common stock, effective July 1, 2020” at the meeting of the Board of Directors held on January 21, 2020.

After taking into account the basic policy and stock split above, for the following fiscal year ending December 31, 2020, Chugai expects interim dividends payment of ¥75 (prior to the stock split) and year-end dividends payment of ¥25 (after the stock split). When calculated based on the assumption of no stock split, the annual dividends per share is ¥150. The forecast for the Core dividend payout ratio for 2020 is 41.0% on a single fiscal year basis and 45.0% on a five-year average basis.

2. Management Principles and Goals

(1) Basic management principles

In line with its strategic alliance with the world-leading pharmaceutical company Roche, the Group's basic management principles is to develop hand in hand with society under its mission of "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" and its goal of "becoming a top innovator in the healthcare industry that realizes sophisticated and sustainable patient-centered medical care."

As the Group works to achieve these goals, it will carry out its business activities in line with its core values of "patient-centered," "frontier spirit" and "sincerity."

Under these basic management principles, and in line with the philosophy "Innovation all for the patients," the Group focuses on innovation based on innovative drug discovery, with the aim of resolving social issues and developing a sound society through the provision of optimal medical care for each and every patient, while also expanding corporate value in a sustainable manner.

Furthermore, the Group will proactively work on environmental, social, governance and other issues in order to ensure that its business activities influence society in the best way possible. The Group is convinced that these activities will contribute to enhancing the sustainability of society as a whole, while laying a foundation for the long-term development of the Group.

(2) Target management indicators

The Group places emphasis on increasing corporate value by generating innovation. When formulating medium-to-long-term plans, the Group drafts its growth strategy after clarifying the gap between targets and the existing situation, taking into account equity spread. Whenever making investment decisions such as development projects, the Group allocates resources and makes management decisions with emphasis on profitability and capital efficiency, including evaluations based on capital costs. Moreover, as an indicator that directly expresses sustainable increase in corporate value and that can be shared with shareholders and other stakeholders, under its medium-term business plan "IBI 21," which covers the period from the fiscal year 2019 through fiscal year 2021, the Group upholds the average annual growth in its Core EPS for the three-year period.

With regard to the target level of the indicator, in light of the favorable performance of the initial year of "IBI 21" including the strong sales of in-house developed global products, the Group revised its target of Core EPS compound annual growth rate from "a high single-digit rate (assuming constant exchange rates)", which had been initially aimed at in the medium-term business plan, to "around 30% (assuming constant exchange rates, no stock split)."

(3) Management environment and issues to be addressed

Amid increasing expectations and needs for pharmaceuticals due to an increase in the world population and progressive demographic graying in each country, the realization of sustainable medical care with limited resources has become a common issue in the world. In addition, while the dramatic progress of life sciences and ICT has significantly changed the social structure and expanded opportunities to generate innovation for solving medical issues, competition among companies is speeding up beyond existing industries and intensifying more than ever.

As the interplay of these changes is expected to bring about exponential upheavals in society as a whole, the pharmaceutical industry is called on to undergo major transformation as well.

Pursuit of "innovation" is the most important challenge. There is a need for the development of new drugs that respond to unmet medical needs through the search for new therapy targets and further innovation in drug discovery technologies. Furthermore, in order to realize optimal medical care for each and every patient, the challenge is to acquire and enhance capabilities that break through conventional drug discovery capabilities, while flexibly incorporating new technologies that leverage advances in life sciences as well as the evolution of digital technologies such as big data and AI.

"Business structural reform" to realize these goals is also a pressing issue. Amid an increasingly severe business environment for pharmaceutical companies due to stronger financial pressure and measures to curb drug costs worldwide, there is even greater need of transformation to a structure that enables concentrated investment of limited resources on innovation. Particularly in Japan, in the wake of a series of stringent system reforms aimed at curbing drug costs, the market is expected to contract increasingly in the future. The challenge is to design a new business structure that fundamentally revises existing processes and cost structures and makes use of digital and other technologies.

In addition to these challenges in the pharmaceutical industry, there are growing threats to the sustainability of the system, including recent changes in the global environment and socio-economic issues such as poverty caused by economic disparity. In order to sustainably develop business activities, companies must seriously face up to the underlying social issues, identify the issues related to their respective value chains, and make efforts to resolve them.

In these circumstances, the Group achieved top-class growth in Japan based on the development of innovative new drugs and its strategic alliance with Roche. While securing a stable revenue foundation through Roche's fully stocked pipeline of new drugs, the Group concentrates resources on in-house drug discovery and continually generates innovative R&D projects. As a result, the Group's drug discovery capabilities have been highly evaluated worldwide, with five drugs (Actemra, Alecensa, Hemlibra, SA237 (Satralizumab) and CIM331 (Nemolizumab)) generated by Chugai being designated as Breakthrough Therapy by the U.S. FDA. In addition, the Group's late-stage development and sales activities leverage the Roche Global platform and achieve a high level of productivity.

Going forward, the Group will steadily maximize value for growth drivers such as Alecensa and Hemlibra in the global market and generate in-house the next growth drivers ahead of competitors through swift development in an aim for sustainable profit growth.

Meanwhile, as society faces major changes in a global scale, Chugai recognizes that its initiatives must further evolve together.

(4) Medium-term business plan "IBI 21"

The Group formulated its new medium-term business plan "IBI 21," which covers the period from fiscal year 2019 through fiscal year 2021. Based on the business foundation built under the previous medium-term business plan "IBI 18" and the strategic alliance with Roche, the Group has entered a new stage of transformation aiming to acquire further competitive advantage as well as achieve sustained profit growth and expanded corporate value.

The Group's goal with "IBI 21" is to accelerate the development of itself and society through the creation of innovative drugs and services. The Group has set out "five strategies" to achieve that goal, based on the priority agenda of "create global growth drivers and maximize value" and "strengthen human resources and infrastructure that support the business."

Under "IBI 21," Chugai aims for sustained corporate growth through innovation by further enhancing its basic approach to innovation which is expressed in "IBI," "INNOVATION BEYOND IMAGINATION."

1) Value Creation (Drug Discovery, Development, Pharmaceutical Technology)

The Group has been making priority investment in the world's leading-edge antibody engineering technologies to accelerate the creation of innovative R&D projects. In addition, the Group has selected middle molecules as its next-generation core drug discovery technologies along with small molecule and antibody technologies, and has been striving for the establishment of technologies through concentrated investment and early generation of R&D projects.

Under "IBI 21," the Group will tackle a new dimension of drug discovery to realize innovative drug discovery to cure and control diseases. The Group will incorporate biology (deeper understanding of pathology) into its proprietary drug discovery technologies cultivated thus far, in addition to their ongoing enhancement, to identify original drug discovery targets. Vigorous efforts will be made to achieve PoC and development in the shortest lead time and prove patient value. In-house, the Group will advance development with global top-class quality and speed under its promotion system for translational research centered on three regions, namely Japan, the United States and Europe, as well as cooperate with Roche to achieve continuous generation of innovative new drugs that will be next-generation growth drivers.

In order to achieve the earliest delivery of such innovative new drugs to patients, the Group will enhance its systems for accelerated development and product supply, especially the further evolution of manufacturing technologies for R&D projects with a high degree of difficulty in formulation such as middle molecule drugs. The Group will also continue striving to enhance quality control, quality assurance and regulatory functions to meet global standards.

2) Value Delivery (Marketing & Sales, Medical Affairs, Safety)
By launching numerous promising therapy products developed in-house or in-licensed from Roche, the Group has been building a solid presence in oncology, renal disease, bone and joint disease, rheumatic diseases as well as other fields.

Under "IBI 21," the Group aims to accelerate its growth through furthering its activities to promote the appropriate use of pharmaceuticals, including provision of information and safety management in a patient-centered manner, and the generation of evidence to enhance the value of drugs from the patients' viewpoint. At the same time, the Group will strengthen digital solutions incorporating evolutions in technology, and provide other solutions to meet the advanced and diversified needs of stakeholders, in order to contribute to "advanced and sustainable patient-centered healthcare." The Group will also focus its activities on growth driver products in Japan and overseas.

3) Promote advances in personalized healthcare
Backed by the dramatic progress of genome medicine and data analysis technology, "Personalized Healthcare (PHC)" has advanced considerably in recent years. In addition, the evolution of digital devices and other developments have enabled a wide range of benefits for patients, including QOL, to be quantified, beyond the conventional qualities of "efficacy and safety." As a result, it is increasingly vital to provide optimal solutions for patients and verify their value. In that context, as a member of the Roche Group, a world leader in PHC, the Group will work in close cooperation with the government and academic institutions, aiming for a new stage in PHC that provides optimal therapy for each individual. Furthermore, the Group will stay ahead of the competition in striving to strengthen its capabilities to provide and verify a wide range of value to patients and their families. Moreover, the Group will also proactively promote greater efficiency in the search for drug discovery targets and molecules, streamlining of clinical development using real-world data (RWD), and other innovations in the R&D process, through initiatives leveraging digital technologies and data.

In addition, as a leading company in oncology, Chugai believes that it has an important responsibility to contribute to the realization of cancer genome medicine and the development of its supply structure. "FoundationOne CDx Cancer Genomic Profile" was developed under this mission. It is a product that provides comprehensive genomic profiling (CGP) assays for cancer using next-generation sequencers, and contributes to the development and spread of PHC in cancer treatment. In 2018, Chugai established the "Foundation Medicine Unit" and vigorously promotes the business.

4) Strengthening human capital and conduct structural reform
In implementing the strategies mentioned so far, obtaining and nurturing diverse human resources that drive the creation of innovation while responding to a rapidly changing environment is important. Under "IBI 21," the Group will further strengthen its efforts to obtain, nurture and assign sophisticated and diverse human resources with a view to the medium to long term. Specifically, the Group will strengthen its system to implement talent management/position management to assign the right leader to the right position; acquire specialized human resources who will play key roles in carrying out strategies; transform the personnel and compensation system so that it supports a corporate culture with a spirit for challenges; and further promote diversity and inclusion. Through these measures, the Group will strive to foster an organizational culture where innovation is created by the active participation of diverse human resources.

In addition, as financial pressure increasingly undermines the business environment for pharmaceutical companies, transforming cost structures is an important issue for companies to enable the concentration of resources on innovation. In order to concentrate limited resources on innovation, Chugai has taken measures such as carrying out the business transfer of 13 long-term listed products in 2018. Under "IBI 21," the Group is resolved to fundamentally revise its business processes and cost structure in order to simultaneously achieve flexible investment in innovation and sustained profit growth.

5) Strengthening sustainable platforms

In order to achieve advanced and sustainable medical care and contribute to human health, the Group conducts its business in line with its core values. The Group strives to carry out its business activities with sincerity at all times with the highest ethical standards, compliance and quality management as befits a corporate group involved in the healthcare industry. The Group has addressed business activities considerate of the global environment as well as social contribution activities conducive to “medical care,” “welfare,” “education,” “local communities” and the “environment” as a good corporate citizen.

Under “IBI 21,” the Group will work on key issues (materiality) identified in light of its mission and the impact of its business on the economy, society and the environment. Particularly, the focus will be to maintain the high quality of its pharmaceutical products and services as well as to contribute Chugai’s technology and expertise to health care, improving people’s access to which will promote global health. The Group will aim to minimize its negative impact on natural capital by pursuing business activities that consider the global environment.

The Group will take up the key issues (materiality) above in its proactive disclosure and dialogue with stakeholders.

Under “IBI 21,” the Group will work for the development of society and itself through innovation, centered on these five strategies.

3. Basic Approach to the Selection of Accounting Standards

The Group engages actively in international business with the aim of providing a continuous flow of innovative medical products domestically and internationally. These activities include sales of pharmaceuticals and research and development overseas. In light of this, International Financial Reporting Standards (IFRS) has been adopted from the first quarter of the fiscal year ended December 31, 2013 to improve the international comparability of financial information for investors and other users of the financial statements.

4. Consolidated Financial Statements and Major Notes

(1) Consolidated income statement and consolidated statement of comprehensive income

1) Consolidated income statement in millions of yen

	Year ended December 31	
	2019	2018
Revenues	**686,184**	**579,787**
Sales	588,896	527,844
Royalties and other operating income	97,288	51,943
Cost of sales	(266,071)	(262,847)
Gross profit	**420,113**	**316,940**
Marketing and distribution	(77,183)	(73,706)
Research and development	(107,942)	(99,202)
General and administration	(24,391)	(19,710)
Operating profit	**210,597**	**124,323**
Financing costs	(125)	(111)
Other financial income (expense)	545	449
Other expense	(3,124)	(3,212)
Profit before taxes	**207,893**	**121,449**
Income taxes	(50,333)	(28,370)
Net income	**157,560**	**93,079**
Attributable to:		
Chugai shareholders	157,560	92,488
Non-controlling interests	—	591
Earnings per share		
Basic (yen)	287.84	169.08
Diluted (yen)	287.43	168.80

2) Consolidated statement of comprehensive income in millions of yen

	Year ended December 31	
	2019	2018
Net income recognized in income statement	**157,560**	**93,079**
Other comprehensive income		
Remeasurements of defined benefit plans	329	(2,472)
Financial assets measured at fair value through OCI	(255)	363
Items that will never be reclassified to the income statement	**74**	**(2,109)**
Financial assets measured at fair value through OCI	(17)	0
Cash flow hedges	(1,317)	(225)
Currency translation of foreign operations	(1,172)	(3,158)
Items that are or may be reclassified to the income statement	**(2,506)**	**(3,383)**
Other comprehensive income, net of tax	**(2,433)**	**(5,492)**
Total comprehensive income	**155,127**	**87,587**
Attributable to:		
Chugai shareholders	155,127	87,078
Non-controlling interests	―	509

(2) Consolidated balance sheet in millions of yen

	December 31, 2019	December 31, 2018
Assets		
Non-current assets:		
Property, plant and equipment	255,559	222,388
Right-of-use assets	9,749	–
Intangible assets	23,540	22,699
Financial non-current assets	2,958	9,723
Deferred tax assets	42,680	35,568
Other non-current assets	24,750	29,077
Total non-current assets	**359,235**	**319,455**
Current assets:		
Inventories	168,122	159,360
Accounts receivable	181,641	179,556
Current income tax assets	0	3
Marketable securities	129,117	102,533
Cash and cash equivalents	203,941	146,860
Other current assets	16,858	11,781
Total current assets	**699,680**	**600,093**
Total assets	**1,058,915**	**919,548**
Liabilities		
Non-current liabilities:		
Long-term debt	–	(82)
Deferred tax liabilities	(9,304)	(9,031)
Defined benefit plan liabilities	(7,094)	(14,671)
Long-term provisions	(2,348)	(2,072)
Other non-current liabilities	(6,914)	(1,946)
Total non-current liabilities	**(25,662)**	**(27,802)**
Current liabilities:		
Short-term debt	–	(133)
Current income tax liabilities	(41,047)	(19,567)
Short-term provisions	(4)	(1)
Accounts payable	(77,635)	(71,706)
Other current liabilities	(60,582)	(43,810)
Total current liabilities	**(179,268)**	**(135,218)**
Total liabilities	**(204,930)**	**(163,019)**
Total net assets	**853,985**	**756,529**
Equity:		
Capital and reserves attributable to Chugai shareholders	853,985	755,864
Equity attributable to non-controlling interests	–	664
Total equity	**853,985**	**756,529**
Total liabilities and equity	**1,058,915**	**919,548**

(3) Consolidated statement of cash flows in millions of yen

	Year ended December 31	
	2019	2018
Cash flows from operating activities		
Cash generated from operations	249,500	151,857
(Increase) decrease in working capital	6,205	4,486
Payments made for defined benefit plans	(11,540)	(2,652)
Utilization of provisions	(2)	(29)
Other operating cash flows	(2,741)	(3,022)
Cash flows from operating activities, before income taxes paid	**241,423**	**150,639**
Income taxes paid	(34,782)	(31,565)
Total cash flows from operating activities	**206,641**	**119,074**
Cash flows from investing activities		
Purchase of property, plant and equipment	(53,009)	(71,785)
Purchase of intangible assets	(8,168)	(5,886)
Disposal of property, plant and equipment	119	49
Interest and dividends received	197	200
Purchases of marketable securities	(256,768)	(263,503)
Sales of marketable securities	230,158	264,711
Purchases of investment securities	(1,013)	(709)
Sales of investment securities	6,743	2,863
Other investing cash flows	0	(0)
Total cash flows from investing activities	**(81,741)**	**(74,060)**
Cash flows from financing activities		
Purchase of non-controlling interests	(2,307)	―
Interest paid	(27)	(5)
Lease liabilities paid	(8,861)	―
Dividends paid to Chugai shareholders	(56,370)	(35,010)
Dividends paid to non-controlling shareholders	―	(791)
Exercise of equity compensation plans	735	996
(Increase) decrease in own equity instruments	(25)	(19)
Other financing cash flows	(16)	(187)
Total cash flows from financing activities	**(66,872)**	**(35,014)**
Net effect of currency translation on cash and cash equivalents	(947)	(2,215)
Increase (decrease) in cash and cash equivalents	**57,081**	**7,785**
Cash and cash equivalents at January 1	146,860	139,074
Cash and cash equivalents at December 31	**203,941**	**146,860**

(4) Consolidated statement of changes in equity in millions of yen

	Attributable to Chugai shareholders						
	Share capital	Capital surplus	Retained earnings	Other reserves	Subtotal	Non-controlling interests	Total equity
Year ended December 31, 2018							
At January 1, 2018	**72,970**	**64,815**	**550,974**	**3,166**	**691,924**	**973**	**692,897**
Impact of changes in accounting policies	—	—	10,606	—	10,606	—	10,606
At January 1, 2018 (revised)	72,970	64,815	561,580	3,166	702,530	973	703,503
Net income	—	—	92,488	—	92,488	591	93,079
Financial assets measured at fair value through OCI	—	—	—	363	363	—	363
Cash flow hedges	—	—	—	(225)	(225)	—	(225)
Currency translation of foreign operations	—	—	—	(3,077)	(3,077)	(82)	(3,158)
Remeasurements of defined benefit plans	—	—	(2,472)	—	(2,472)	—	(2,472)
Total comprehensive income	—	—	**90,016**	**(2,938)**	**87,078**	**509**	**87,587**
Dividends	—	—	(35,003)	—	(35,003)	(817)	(35,820)
Equity compensation plans	31	(97)	—	—	(66)	—	(66)
Own equity instruments	—	1,325	—	—	1,325	—	1,325
Transfer from other reserves to retained earnings	—	—	1,498	(1,498)	—	—	—
At December 31, 2018	**73,000**	**66,043**	**618,091**	**(1,270)**	**755,864**	**664**	**756,529**

	Share capital	Capital surplus	Retained earnings	Other reserves	Subtotal	Non-controlling interests	Total equity
Year ended December 31, 2019							
At January 1, 2019	**73,000**	**66,043**	**618,091**	**(1,270)**	**755,864**	**664**	**756,529**
Net income	—	—	157,560	—	157,560	—	157,560
Financial assets measured at fair value through OCI	—	—	—	(272)	(272)	—	(272)
Cash flow hedges	—	—	—	(1,317)	(1,317)	—	(1,317)
Currency translation of foreign operations	—	—	—	(1,172)	(1,172)	—	(1,172)
Remeasurements of defined benefit plans	—	—	329	—	329	—	329
Total comprehensive income	—	—	**157,889**	**(2,761)**	**155,127**	—	**155,127**
Dividends	—	—	(56,373)	—	(56,373)	—	(56,373)
Equity compensation plans	16	52	—	—	68	—	68
Own equity instruments	—	941	—	—	941	—	941
Changes in non-controlling interests	—	—	(1,662)	19	(1,643)	(664)	(2,307)
Transfer from other reserves to retained earnings	—	—	4,131	(4,131)	—	—	—
At December 31, 2019	**73,016**	**67,037**	**722,076**	**(8,143)**	**853,985**	—	**853,985**

(5) Notes regarding the going concern assumption
None

(6) Notes regarding the consolidated financial statements
1) General accounting principles and significant accounting policies
a. Basis of preparation of the consolidated financial statements
These financial statements are the annual consolidated financial statements ("Consolidated Financial Statements") of Chugai, a company registered in Japan, and its subsidiaries ("the Group"). The common stock of Chugai is publicly traded and listed on the Tokyo Stock Exchange under the stock code "TSE: 4519." The Consolidated Financial Statements were approved by the Board of Directors on January 30, 2020.

Roche Holding Ltd. is a public company registered in Switzerland and the parent company of the Roche Group, which discloses its results in accordance with International Financial Reporting Standards ("IFRS"). The shareholding percentage of Roche Holding Ltd. in Chugai is 59.89% (61.22% of the total number of shares issued excluding treasury stock). The Group became principal members of the Roche Group after entering into a strategic alliance in October 2002.

The Group meets all of the requirements for a "Specified Company under Designated International Financial Reporting Standards" as stipulated under Article 1-2 of the "Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (Ministry of Finance of Japan Ordinance No. 28, 1976, "the Ordinance"). Hence, in accordance with Article 93 of the Ordinance, the Consolidated Financial Statements have been prepared in accordance with IFRS.

The Consolidated Financial Statements are presented in Japanese yen, which is Chugai's functional currency and amounts are rounded to the nearest ¥1 million. They have been prepared using the historical cost convention except for items that are required to be accounted for at fair value.

b. Significant accounting policies
The Group applies the same significant accounting policies that are used for the previous fiscal year to the Consolidated Financial Statements, except for those stated in c. Changes in accounting policies below.

c. Changes in accounting policies
In 2019 the Group has adopted IFRS 16 'Leases', including any consequential amendments to other standards, effective 1 January 2019. The nature and the effects of the changes from implementing IFRS 16 'Leases' most relevant to the Group's Consolidated Financial Statements are given below.

IFRS16 'Leases'
Effective 1 January 2019 the Group has implemented IFRS 16 'Leases'. IFRS 16 replaces existing leases guidance, including IAS 17 'Leases', and sets out the principles for recognition and measurement of leases. The new standard results in an increased volume of disclosure information in the Annual Financial Statements. The main effect on the Group is that IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. It requires a lessee to recognise assets and liabilities for its leases unless practical expedients are applied for the recognition exemption. As a result, leased assets, including right-of-use asset, lease receivable and so on totalling ¥ 15,203 million and lease liabilities totalling ¥ 14,553 million have been recorded on the balance sheet, effective 1 January 2019.

The application of the new standard results in the interest element of what have previously been reported as operating lease costs being recorded as interest expenses. Given the leases involved and the current low interest rate environment, this effect is not material to the Group.

The main impact of the new standard on the statement of cash flows is that cash flows in respect of leases previously reported as operating leases are reported as part of cash flows from financing activities except for short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability from 1 January 2019. Previously these were included within cash flows from operating activities.

Transition approach.

The Group has applied the cumulative catch-up method for the transition. Therefore the cumulative effect of adopting IFRS 16 has been recognised as an adjustment to leased assets, including right-of-use asset, lease receivable and so on totalling ¥ 15,203 million and lease liabilities totalling ¥ 14,553 million at 1 January 2019, with no restatement of comparative information. There is no impact for the opening balance of retained earnings at the date of initial application because the Group measures right-of-use asset which is an amount equal to the lease liability. However we have adjusted the lease liability by the amount of any prepaid or accrued lease payments relating to that lease recognised on the balance sheet immediately before the date of initial application. Except for this adjustment, there is no material impact on the Group's performance or financial position from the application of this standard.

Some practical expedients permitted by the standard are used, notably to not reassess upon transition whether an existing contract contains a lease, and the recognition exemptions for short-term leases and leases of low-value assets.

Presentational changes.

As a result of implementing IFRS 16, the Group has made a number of presentational changes in 2019, notably to present 'Right-of-use assets' as a separate line item in the balance sheet and to include lease liabilities in other current liabilities and other non-current liabilities. A new note for 'Leases' will be created to include the increased volume of required disclosure information in the Annual Financial Statements.

d. Future new and revised standards

The Group is currently assessing the potential impacts of new standards and interpretations that will be effective from January 1, 2020 and beyond. Based on the analysis to date, the Group does not anticipate that these will have a material impact on the Group's overall results and financial position.

2) Operating segment information

The Group has a single business of pharmaceuticals and does not have multiple operating segments. The Group's pharmaceuticals business consists of research and development of new prescription medicines and subsequent manufacturing, marketing and distribution activities. These functional activities are integrated and managed effectively.

Information on revenues by geographical area in millions of yen

	2019		2018	
	Sales	Royalties and other operating income	Sales	Royalties and other operating income
Japan	437,561	6,404	399,906	21,569
Overseas	151,335	90,884	127,939	30,374
of which Switzerland	134,330	87,731	109,938	24,250
Total	**588,896**	**97,288**	**527,844**	**51,943**

Information by major customer in millions of yen

	2019	2018
F. Hoffmann-La Roche Ltd.	217,265	134,188
Alfresa Corporation	114,202	103,959
Mediceo Corporation	75,797	76,004

3) Other expense

Chugai had filed the Advance Pricing Arrangement covering the certain transactions with F. Hoffmann-La Roche Ltd., to Japanese and Swiss tax authorities. In the first quarter of FY 2017, Chugai received a notice of agreement from both tax authorities which includes the instruction that the taxable income of Chugai shall be decreased by a certain amount and that of Roche shall be increased by the same amount in each fiscal year from 2016 to 2020, and if necessary, additional adjustments to the accounts shall be made in 2021.

As a result of this agreement, Chugai will transfer a part of the deducted amount of corporate tax etc., to Roche as the estimated tax payable for Roche, in accordance with the license agreement between Chugai and Roche. In addition, it has posted ¥3,124 million of adjustment from transfer pricing taxation.

4) Earnings per share

Basic earnings per share

	2019	2018
Net income attributable to Chugai shareholders (millions of yen)	**157,560**	**92,488**
Weighted average number of common stock	559,685,889	559,685,889
Weighted average number of treasury stock	(12,305,837)	(12,662,197)
Weighted average number of shares in issue	**547,380,052**	**547,023,692**
Basic earnings per share (yen)	**287.84**	**169.08**

Diluted earnings per share

	2019	2018
Net income attributable to Chugai shareholders (millions of yen)	**157,560**	**92,488**
Weighted average number of shares in issue	547,380,052	547,023,692
Adjustment for assumed exercise of equity compensation plans, where dilutive	790,042	892,227
Weighted average number of shares in issue used to calculate diluted earnings per share	**548,170,094**	**547,915,919**
Diluted earnings per share (yen)	**287.43**	**168.80**

There were no stock options that were eliminated from the weighted average number of shares in issue used to calculate diluted earnings per share since they do not have dilutive effects.

5) Statement of cash flows

Cash flows from operating activities

Cash flows from operating activities arise from the Group's primary activities including research and development, manufacturing and sales in the Pharmaceuticals business. These are calculated by the indirect method by adjusting the Group's operating profit for any operating income and expenses that are not cash flows (for example depreciation, amortization and impairment) in order to derive the cash generated from operations. Operating cash flows also include income taxes paid on all activities.

Cash generated from operations in millions of yen

	2019	2018
Net income	157,560	93,079
Financing costs	125	111
Other financial income (expense)	(545)	(449)
Other expense	3,124	3,212
Income taxes	50,333	28,370
Operating profit	**210,597**	**124,323**
Depreciation of property, plant and equipment	17,778	14,590
Depreciation of right-of-use assets	6,031	—
Amortization of intangible assets	2,592	1,988
Impairment of property, plant and equipment	1,252	59
Impairment of intangible assets	2,664	4,844
Operating expense for defined benefit plans	4,369	4,427
Operating expense for equity-settled equity compensation plans	300	282
Net (income) expense for provisions	287	—
Inventory write-downs	1,053	1,051
Other adjustments	2,577	294
Cash generated from operations	**249,500**	**151,857**

Cash flows from investing activities

Cash flows from investing activities are principally those arising from the Group's investments in property, plant and equipment and intangible assets. Cash flows connected with the Group's portfolio of marketable securities and other investments are also included, as are any interest and dividend payments received in respect of these securities and investments.

Interest and dividends received in millions of yen

	2019	2018
Interest received	106	85
Dividends received	91	115
Total	**197**	**200**

Cash flows from financing activities

Cash flows from financing activities are primarily dividend payments to Chugai shareholders and lease liabilities paid.

Significant non-cash transactions

There were no significant non-cash transactions (2018: none).

6) Related parties

a. Controlling shareholder

Effective from October 2002, Roche and Chugai concluded an alliance to create a leading research-driven Japanese pharmaceutical company, which was formed by the merger of Chugai and Roche's Japanese pharmaceuticals subsidiary, Nippon Roche. Through the merger, Chugai become a principal member of the Roche Group as the surviving company.

Chugai has entered into certain agreements with Roche, which are discussed below:

Basic Alliance Agreement: As part of the Basic Alliance Agreement signed in December 2001, Roche and Chugai entered into certain arrangements covering the future operation and governance of Chugai. Amongst other matters, these cover the following areas:

- The structuring of the alliance.
- Roche's rights as a shareholder.
- Roche's rights to nominate members of Chugai's Board of Directors.
- Certain limitations to Roche's ability to buy or sell Chugai's common stock.

Chugai may issue additional shares of common stock in connection with its convertible debt and equity compensation plans, and for other purposes, which affects Roche's percentage ownership interest. The Basic Alliance Agreement provides, amongst other matters, that Chugai will guarantee Roche's right to maintain its shareholding percentage in Chugai at not less than 50.1%.

Licensing Agreements: Under the Japan Umbrella Rights Agreement signed in December 2001, Chugai has exclusive rights to market Roche's pharmaceutical products in Japan. Chugai also has right of first refusal on the development and marketing in Japan of all development compounds held 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 right of first refusal on the development and marketing of Chugai's development compounds in markets outside Japan, excluding South Korea and Taiwan.

Further to these agreements, Roche and Chugai 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 Chugai, for any or all of the following matters:

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

These specific product agreements may also cover the manufacture, supply etc. of the respective products to meet the other party's clinical and/or commercial requirements on an arm's length basis.

Research Collaboration Agreements: Roche and Chugai have entered into research collaboration agreements in the areas of small-molecule synthetic drug research and biotechnology-based drug discovery.

Dividends: The dividends distributed to Roche by Chugai in respect to its holdings of Chugai shares totaled ¥34,528 million (2018: ¥21,454 million).

b. Material transactions and balances with related parties
Transactions with F. Hoffmann-La Roche in millions of yen

	2019	2018
Revenues	217,265	134,188
Purchases	145,336	125,657

From the fiscal year under review, revenues include sales as well as royalties and other operating income due to the increased significance of royalties and other operating income.

Balances with F. Hoffmann-La Roche in millions of yen

	December 31, 2019	December 31, 2018
Accounts receivable	69,152	46,078
Trade accounts payable	38,006	29,567

From the fiscal year under review, accounts receivable includes other accounts receivable due to the increased significance of other accounts receivable.

c. Remuneration of key management personnel
Remuneration of members of the board and audit & supervisory board members in millions of yen

	2019	2018
Board of directors		
− Regular remuneration	298	304
− Bonuses	120	120
− Tenure-based restricted stock compensation	86	57
− Performance-based restricted stock compensation	76	72
− Chugai common stock options	−	21
Total	**580**	**573**

	2019	2018
Audit & supervisory board members		
− Regular remuneration	96	87
Total	**96**	**87**

7) Subsequent events

The Company resolved at the meeting of the Board of Directors held on January 21, 2020, the stock split and partial amendment to the articles of incorporation.

a. Purpose of the stock split

The stock split aims to reduce the investment unit price for the Company's stock, increase the liquidity of the stocks, and to further expand the investor base.

b. Outline of the stock split

(a) Method

Fixing Tuesday, June 30, 2020 as a record date, the company will split its ordinary share owned by shareholders listed or recorded in the shareholder registry three-for-one.

(b) Number of shares to be increased by the stock split

(i) Total number of shares issued before the stock split	559,685,889
(ii) Increase in the number of shares upon the stock split	1,119,371,778
(iii) Total number of shares issued after the stock split	1,679,057,667
(iv) Total number of shares issuable after the stock split	2,399,415,150

(c) Schedule

(i) Announcement of record date	Monday, June 15, 2020
(ii) Record date	Tuesday, June 30, 2020
(iii) Effective date	Wednesday, July 1, 2020

c. Effect of these changes on per share information

Per-share information calculated as if this stock split had taken place at the beginning of previous fiscal year is as follows:

	2019	2018
Basic earnings per share (yen)	95.95	56.36
Diluted earnings per share (yen)	95.81	56.27

d. Partial amendment to the articles of incorporation

(a) Reasons for the amendment

In line with the stock split, pursuant to the Article 184.2 of the Companies Act of Japan, the Company will amend as of Wednesday, July 1, 2020, the total number of shares issuable set by Article 6 in the Articles of Incorporation of the Company.

(b) Details of the amendment

Details are as follows.

Before the amendment	After the amendment
Article 6. (Total Number of Shares Issuable) The total number of shares issuable of the Company shall be 799,805,050 shares.	Article 6. (Total Number of Shares Issuable) The total number of shares issuable of the Company shall be 2,399,415,150 shares.

(c) Schedule

Effective date of the amendment to the articles of incorporation: Wednesday, July 1, 2020

e. Others

(a) Change in the amount of stated capital

The stock split will not change the amount of stated capital.