CHUGAI PHARMACEUTICAL CO., LTD.

A member of the Roche group

CONSOLIDATED FINANCIAL STATEMENTS (IFRS) (Non-Audited)

(for the second quarter of the fiscal year 2020)

July 27, 2020

Name of Company: Chugai Pharmaceutical Co., Ltd.
Stock Listing: Tokyo Stock Exchange
Security Code No.: 4519 (URL https://www.chugai-pharm.co.jp/english)
Representative: Tatsuro Kosaka, Chairman & CEO
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Date of Submission of Quarterly Marketable Securities Filings: July 30, 2020
Date on which Dividend Payments to Commence: August 28, 2020
Supplementary Materials Prepared for the Quarterly Financial Statements: Yes
Presentation Held to Explain the Quarterly 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 the second quarter of FY 2020 (January 1, 2020–June 30, 2020)

(1) Consolidated operating results

	Revenues	% change	Operating profit	% change	Net income	% change
First six months of FY 2020	¥368,120 million	14.9	¥140,629 million	47.9	¥102,293 million	47.7
First six months of FY 2019	¥320,285 million	12.3	¥95,052 million	42.8	¥69,254 million	41.2

	Net income attributable to Chugai shareholders	% change	Total comprehensive income	% change
First six months of FY 2020	¥102,293 million	47.7	¥101,835 million	50.7
First six months of FY 2019	¥69,254 million	42.3	¥67,553 million	45.9

	Earnings per share (Basic)	Earnings per share (Diluted)
First six months of FY 2020	¥62.26	¥62.18
First six months of FY 2019	¥42.18	¥42.12

Notes: 1. Percentages represent changes compared with the same period of the previous fiscal year.

2. Effective July 1, 2020, Chugai Pharmaceutical Co., Ltd. ("Chugai") has implemented a three-for-one stock split of its common stock. "Earnings per share (Basic)" and "Earnings per share (Diluted)" are calculated based on the assumption that the stock split was implemented at the beginning 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
As of Jun. 30, 2020	¥1,072,144 million	¥905,941 million	¥905,941 million	84.5%
As of Dec. 31, 2019	¥1,058,915 million	¥853,985 million	¥853,985 million	80.6%

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. 2019	—	¥48.00	—	¥92.00	¥140.00
FY ending Dec. 2020	—	¥75.00			
FY ending Dec. 2020 (Forecast)			—	¥25.00	—

Notes: 1. Whether the most recent dividend forecast has been revised: No

2. Effective July 1, 2020, Chugai has implemented a three-for-one stock split of its common stock. The dividend for the fiscal year ended December 31, 2019 and the second quarter of the fiscal year 2020 presents the amount prior to the stock split. 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.

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

	Revenues	% change	Core operating profit	% change	Core net income	% change
First six months of FY 2020 (Results)	¥368,120 million	49.7	¥143,728 million	52.3	¥104,475 million	52.0
FY ending Dec. 2020 (Forecast)	¥740,000 million	7.8	¥275,000 million	22.3	¥201,000 million	19.9

	Core earnings per share		Core dividend payout ratio %
First six months of FY 2020 (Results)	¥63.51	52.1	—
FY ending Dec. 2020 (Forecast)	¥122.00	19.7	41.0

Notes: 1. Percentages shown for forecasts of revenues, Core operating profit, Core net income and Core EPS represent changes from the same period of the previous fiscal year. Percentages for results represent the percentage of forecast levels that have been achieved to date.

2. Whether the most recent forecasts for consolidated figures have been revised: No

3. 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.

4. Effective July 1, 2020, Chugai has implemented a three-for-one stock split of its common stock. Core EPS for the first six months of the fiscal year ending December 31, 2020 (results) and the fiscal year ending December 31, 2020 (forecast) presents the amount after the stock split.

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: None
  (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 Jun. 30, 2020	1,679,057,667	As of Dec. 31, 2019	1,679,057,667
(b) Number of treasury stock at the end of the period	As of Jun. 30, 2020	35,281,881	As of Dec. 31, 2019	36,487,062
(c) Average number of shares issued during the period (six months)	First six months of FY 2020	1,643,072,220	First six months of FY 2019	1,641,928,552

Note: Effective July 1, 2020, Chugai has implemented a three-for-one stock split of its common stock. The number of shares issued (common stock) is calculated based on the assumption that the stock split was implemented at the beginning of the previous fiscal year.

Notes:

The quarterly financial statements are not subject to quarterly reviews.

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.

(3) For the specifics of the forecasts, please refer to "Consolidated Forecasts and Other forward-looking Statements" on page 7 of the attached document.

(4) Chugai is scheduled to hold a conference call as noted below. The materials used for the call, the verbal recording, the Q&A, and other related documents will be posted on the Chugai's website following the conclusion of the conference call.
Teleconference for institutional investors, securities analysts and the media (Japanese only): July 27, 2020, Monday (Japan time).
The English translation of the conference materials will be posted on the website within 2 business days.

Index of the Attachment

1. Qualitative Information

(1) Consolidated operating results in billions of yen

	First six months of FY 2020.12 (Jan. 1, 2020–Jun. 30, 2020)	First six months of FY 2019.12 (Jan. 1, 2019– Jun. 30, 2019)	% change
Core results			
Revenues	**368.1**	**320.3**	**+14.9**
Sales	305.7	282.4	+8.3
Royalties and other operating income	62.5	37.9	+64.9
Cost of sales	(131.2)	(127.5)	+2.9
Gross profit	**236.9**	**192.7**	**+22.9**
Marketing and distribution	(32.3)	(32.9)	(1.8)
Research and development	(52.9)	(47.9)	+10.4
General and administration	(8.0)	(8.4)	(4.8)
Operating profit	**143.7**	**103.5**	**+38.8**
Net income	**104.5**	**75.1**	**+39.1**
IFRS results			
Revenues	368.1	320.3	+14.9
Operating profit	140.6	95.1	+47.8
Net income	102.3	69.3	+47.6

Consolidated financial highlights (IFRS results)

Revenues for the six months under review were ¥368.1 billion (an increase of 14.9% year on year), operating profit for the six months under review was ¥140.6 billion (an increase of 47.8% year on year), and net income for the six months under review was ¥102.3 billion (an increase of 47.6% year on year). These results include non-Core items, such as amortization of intangible assets of ¥0.7 billion, impairment loss of intangible assets of ¥0.1 billion and restructuring expenses of ¥2.3 billion, which are excluded from the Core results that Chugai adopts to manage recurring business activities.

Consolidated financial highlights (Core results)

Revenues for the six months under review were ¥368.1 billion (an increase of 14.9% year on year), due to increases both in overseas sales and royalties and other operating income.

Of revenues, sales were ¥305.7 billion (an increase of 8.3% year on year), due to an increase in export of Actemra to Roche, including those for clinical trials for COVID-19 pneumonia, and the commencement of export of Hemlibra to Roche at a regular shipment price. Royalties and other operating income amounted to ¥62.5 billion (an increase of 64.9% year on year), due to a large increase in royalties for Hemlibra and its profit-sharing income as well as an increase in other operating income resulting from one-time income. Furthermore, cost to sales ratio was 42.9%, a 2.2 percentage point improvement year on year, due to a change in the product mix, etc. As a result, gross profit amounted to ¥236.9 billion (an increase of 22.9% year on year).

Operating expenses were ¥93.2 billion (an increase of 4.5% year on year). Marketing and distribution expenses were ¥32.3 billion (a decrease of 1.8% year on year), due to refraining from domestic business activities caused by the spread of COVID-19. Research and development expenses amounted to ¥52.9 billion (an increase of 10.4% year on year) due to an increase in expenses associated with the progress of projects, etc. General and administration expenses amounted to ¥8.0 billion (a decrease of 4.8% year on year) primarily due to a decrease in various expenses. As a result, Core operating profit was ¥143.7 billion (an increase of 38.8% year on year) and Core net income was ¥104.5 billion (an increase of 39.1% year on year).

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

	First six months of FY 2020.12 (Jan. 1, 2020– Jun. 30, 2020)	First six months of FY 2019.12 (Jan. 1, 2019– Jun. 30, 2019)	% change
Sales	**305.7**	**282.4**	**+8.3**
Domestic sales	**204.6**	**210.0**	**(2.6)**
Oncology	112.2	114.6	(2.1)
Bone and joint diseases	50.5	52.0	(2.9)
Renal diseases	13.7	17.2	(20.3)
Others	28.2	26.2	+7.6
Overseas sales	**101.0**	**72.4**	**+39.5**

Domestic sales
Domestic sales were ¥204.6 billion (a decrease of 2.6% year on year) mainly due to a decrease in sales of mainstay products mainly in the Oncology and Renal diseases areas affected by the NHI drug price revisions in April this year and the market penetration of generic drugs.

Oncology products sales were ¥112.2 billion (a decrease of 2.1% year on year). This decrease was mainly due to the sales decline of Avastin (an anti-VEGF humanized monoclonal antibody, anti-cancer agent) and Herceptin (an anti-HER2 humanized monoclonal antibody, anti-cancer agent) affected by the NHI drug price revisions in April this year and the market penetration of generic drugs, despite the favorable sales of a new product, Tecentriq (an anti PD-L1 humanized monoclonal antibody, anti-cancer agent) and a mainstay product, Perjeta (a HER2 dimerization inhibitory humanized monoclonal antibody, anti-cancer agent).

Bone and joint diseases products sales were ¥50.5 billion (a decrease of 2.9% year on year). This was mainly due to a decrease in sales of Actemra (a humanized anti-human IL-6 receptor monoclonal antibody) affected by the NHI drug price revisions in April this year.

Renal diseases products sales amounted to ¥13.7 billion (a decrease of 20.3% year on year). This was mainly due to a decrease in sales of Mircera (a long-acting erythropoiesis stimulating agent) as a result of intensifying price competition associated with the launch of generic drugs, in addition to the NHI drug price revisions in October 2019 and April this year.

Others products sales were ¥28.2 billion (an increase of 7.6% year on year) due to the market penetration of a new product, Hemlibra (blood coagulation factor VIII substitute), despite a significant drop in regular seasonal sales of Tamiflu (an anti-influenza agent) compared to the previous fiscal year.

Overseas sales
Overseas sales amounted to ¥101.0 billion (an increase of 39.5% year on year) due to an increase in export of Actemra to Roche, including those for clinical trials for COVID-19 pneumonia and the commencement of export of Hemlibra to Roche at a regular shipment price, despite a decrease in export of Alecensa (an ALK inhibitor, anti-cancer agent) to Roche due to the decline in the export unit price.

<Initiatives for COVID-19 and impact on performance>

Our response to COVID-19 has been mainly focused on preventing infection of employees and related business personnel, reducing the burden on and supporting medical institutions and patients in an emergency, and maintaining a stable product supply system. So far, there has been no impact on the product supply both in Japan and overseas. In addition, we will continue to make similar efforts even after the declaration of a state of emergency has been lifted.

Regarding the impact of COVID-19 on performance during the six months under review, there were no major negative impacts on revenues and profits at each stage. However, we faced multifaceted impacts on the progress of business activities. First, in terms of domestic sales, the introduction of new products and those with new additional indications, such as Tecentriq and Hemlibra, was affected. Although the market penetration is steadily progressing, the market penetration speed was slower than expected, due to various reasons such as the restrain from sales activities, a decrease in the number of hospitalizations and outpatients, and postponement of switching to new drugs in an uncertain living environment. In terms of overseas sales, exports to Roche were favorable since the delay in switching to Hemlibra was temporary, and export of Actemra to Roche, including those for clinical trials for COVID-19 pneumonia, increased significantly. In addition, some expenses were curbed mainly due to cancellation of overseas travels and the restrain from domestic sales activities. Regarding regulatory affairs such as filing applications for approval and response to review, although there is a small impact such as changes of the interview method and schedule, the timing of filing or approval has not been significantly affected so far. In projects under development, while there have been some delays in schedules of the start timing and progress of clinical trials due to restrictions on visits by medical facilities and refraining from patient visits, these delays are expected to be resolved in the future. Regarding drug discovery research activities, we changed the schedule for some projects, but there is no delay in high-priority projects. For projects such as capital investment, some work was suspended during the period of the declaration of a state of emergency at the Chugai Life Science Park Yokohama, which is under construction, but all work was resumed from June after the declaration of a state of emergency was lifted. As such, the effect on the whole construction period is limited. Regarding the humanized anti-human IL-6 receptor monoclonal antibody “Actemra,” a domestic phase III clinical trial for COVID-19 pneumonia is currently being conducted, and its impact on performance is unclear at this point.

As described above, while COVID-19 affected various business activity areas, negative impacts on business performance were limited. Although uncertain business environment will continue, we will continue to focus mainly on preventing infections of employees and related business personnel, reducing the burden on and supporting medical institutions and patients, and maintaining a stable product supply system.

R&D activities

R&D expenses on a Core basis for the first six months under review totaled ¥52.9 billion (an increase of 10.4% year on year), and the ratio of R&D expenses to revenue was 14.4%.

Progress made in R&D activities during the period from January 1, 2020 to June 30, 2020 was as follows.

Oncology

- We obtained approval for the ROS1/TRK inhibitor RG6268 (Product name: Rozlytrek) for the additional indication of *ROS1* fusion-positive, unresectable, advanced or metastatic non-small cell lung cancer (NSCLC) in February 2020.
- We filed engineered anti-PD-L1 monoclonal antibody RG7446 (Product name: Tecentriq) for the treatment of unresectable, advanced or metastatic hepatocellular carcinoma (HCC) in February 2020. We decided to discontinue the development of muscle invasive urothelial carcinoma (adjuvant) and renal cell carcinoma considering the results of global Phase III studies IMvigor010 and IMmotion151, respectively.
- We filed anti-VEGF (Vascular Endothelial Growth Factor) humanized monoclonal antibody RG435 (Product name: Avastin) for the treatment of unresectable, advanced or metastatic HCC in February 2020. We started domestic Phase III study for the treatment of small cell lung cancer, in combination with RG7446, in January 2020. We decided to discontinue the development of renal cell carcinoma considering the results of global Phase III study (IMmotion151).
- We filed anti-CD79b antibody-drug conjugate RG7596 for the treatment of relapsed or refractory diffuse large B-cell lymphoma in June 2020.
- We started global Phase III studies for the anti-TIGIT human monoclonal antibody RG6058 for the treatment of small cell lung cancer and NSCLC in February and March 2020, respectively.
- We started Phase II study for the oncolytic type 5 adenovirus OBP-301 for the treatment of esophageal cancer in March 2020.
- We started Phase I study for AMY109 for the treatment of solid tumors in March 2020.
- We started Phase I study for STA551 for the treatment of solid tumors in March 2020.
- We started Phase I study for the anti-CD20/CD3 bispecific antibody RG6026 for the treatment of hematologic tumors in March 2020.
- We started Phase I study for SERD (Selective Estrogen Receptor Downregulator) RG6171 for the treatment of breast cancer in April 2020.
- We concluded a global licensing agreement with Verastem Oncology for Raf and MEK dual inhibitor CKI27 to grant them an exclusive worldwide license to manufacture, develop and commercialize CKI27 in January 2020.

Neurology

- We obtained approval for the anti-IL-6 receptor recycling antibody SA237/RG6168 (Product name: Enspryng) for the prevention of relapses of neuromyelitis optica spectrum disorder (including neuromyelitis optica) in Japan in June 2020.
- We started global Phase II study for RG7906 for the treatment of schizophrenia in February 2020.
- We decided to discontinue the development of the anti-myostatin adnectin RG6206 for Duchenne muscular dystrophy in consideration of the results of global Phase II/III study (SPITFIRE).
- We decided to discontinue the development of the vasopressin 1a receptor antagonist RG7314 for autism spectrum disorder in consideration of the results of multiple overseas studies conducted by Roche.

Other diseases

- We started domestic Phase III study for the humanized anti-human IL-6 receptor monoclonal antibody MRA/RG1569 (Product name: Actemra) for the treatment of COVID-19 pneumonia in May 2020.
- We started domestic Phase III study for the anti-coagulation factor IXa/X humanized bispecific monoclonal antibody ACE910/RG6013 (Product name: Hemlibra) for the treatment of acquired hemophilia A in June 2020.

(2) Consolidated financial position

Assets, liabilities and net assets in billions of yen

	June 30, 2020	December 31, 2019	% change
Net operating assets (NOA) and Net assets			
Net working capital	305.0	237.2	+28.6
Long-term net operating assets	331.3	309.8	+6.9
Net operating assets (NOA)	**636.3**	**547.0**	**+16.3**
Net cash	290.7	333.1	(12.7)
Other non-operating assets – net	(21.1)	(26.1)	(19.2)
Total net assets	**905.9**	**854.0**	**+6.1**
Consolidated balance sheet (IFRS basis)			
Total assets	1,072.1	1,058.9	+1.2
Total liabilities	(166.2)	(204.9)	(18.9)
Total net assets	905.9	854.0	+6.1

Net operating assets (NOA) at June 30, 2020 were ¥636.3 billion, an increase of ¥89.3 billion since the end of the previous fiscal year. Of NOA, net working capital was ¥305.0 billion (an increase of ¥67.8 billion since the end of the previous fiscal year), due mainly to an increase in accounts receivable. Long-term operating assets increased by ¥21.5 billion to ¥331.3 billion since the end of the previous fiscal year, mainly due to the investment in the Chugai Life Science Park Yokohama.

As indicated in “Cash flows” on the next page, net cash, including marketable securities and interest-bearing debt, decreased by ¥42.4 billion since the end of the previous fiscal year to ¥290.7 billion. Other non-operating assets – net increased by ¥5.0 billion since the end of the previous fiscal year to ¥(21.1) billion, due mainly to a decrease in current income tax liabilities.

As a consequence, total net assets were ¥905.9 billion (an increase of ¥51.9 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.

Cash flows in billions of yen

	First six months of FY 2020.12 (Jan. 1, 2020–Jun. 30, 2020)	First six months of FY 2019.12 (Jan. 1, 2019– Jun. 30, 2019)	% change
Free cash flows			
Operating profit - IFRS basis	140.6	95.1	+47.8
Operating profit, net of operating cash adjustments	157.6	112.3	+40.3
Operating free cash flows	49.0	65.3	(25.0)
Free cash flows	**8.4**	**44.7**	**(81.2)**
Net change in net cash	(42.4)	11.8	—
Consolidated statement of cash flows (IFRS basis)			
Cash flows from operating activities	55.4	65.3	(15.2)
Cash flows from investing activities	(7.7)	(25.4)	(69.7)
Cash flows from financing activities	(54.3)	(36.5)	+48.8
Net change in cash and cash equivalents	(7.3)	2.3	—
Cash and cash equivalents at June 30	196.6	149.2	+31.8

Operating profit, net of operating cash adjustments, amounted to ¥157.6 billion (an increase of 40.3% 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 three months under review was limited to a net inflow of ¥49.0 billion (a decrease of 25.0% year on year) mainly due to the subtraction of an increase in net working capital, etc. of ¥61.4 billion as well as expenditures of ¥40.6 billion for the purchase of property, plant and equipment, despite a significant increase in operating profit, etc. Factors accounting for the increase in net working capital, etc. are as indicated in “Assets, liabilities and net assets” on the previous page.

Free cash flows were a net cash inflow of ¥8.4 billion (a decrease of 81.2% year on year) due mainly to income taxes paid of ¥41.9 billion.

The net change in net cash calculated by subtracting dividends paid of ¥50.4 billion, etc. from free cash flows was a decrease of ¥42.4 billion.

The net change in cash and cash equivalents, excluding changes in marketable securities and interest-bearing debt, was a net cash outflow of ¥7.3 billion. The cash and cash equivalents balance at the end of this period amounted to ¥196.6 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.”

(3) Consolidated Forecasts and Other forward-looking Statements
Chugai has not made any changes in its forecast of consolidated results for the fiscal year ending December 31, 2020 since the announcement regarding the forecast issued on January 30, 2020.

(4) Business and financial issues to be addressed

The new business and financial issues to be addressed during the six months under review are as follows.

The global pandemic of COVID-19 not only has a major impact on the economy, but also forces fundamental behavioral transformation in society. All companies face great challenges in business continuity and are forced to reform their business with a view to the post-COVID-19 era. Furthermore, the role and importance of medical care in society has been greatly highlighted, and expectations for the healthcare industry including pharmaceuticals are increasing.

The Group secures a stable supply of pharmaceuticals and focuses on efforts to minimize the impact on business, while maximizing the safety of its employees and stakeholders. In response to the growing needs for diagnosis, prevention and treatment of COVID-19, the Group is committed to developing therapeutic agents using proprietary drug discovery technologies. As for IL-6 receptor monoclonal antibody “Actemra,” the Group is conducting clinical trial for COVID-19 pneumonia in collaboration with its overseas licensee, Roche Group. In addition, Chugai Pharmabody Research (CPR), the Group’s research base in Singapore, has started a research for development of a new antibody drug against COVID-19 together with Agency for Science, Technology and Research (A*STAR) of Singapore.

In addition to the development of new therapeutic agents, we will foresee social and medical changes of the future, and continue to proactively engage in streamlining and speeding up research and development, and drug information provision activities through further promotion and acceleration of digitalization, as well as business process and work style reforms.

Note: In “1. Qualitative Information,” 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. Interim Condensed Consolidated Financial Statements and Major Notes

(1) Interim condensed consolidated income statement and interim condensed consolidated statement of comprehensive income

1) Interim condensed consolidated income statement in millions of yen

	First six months ended June 30	
	2020	2019
Revenues	**368,120**	**320,285**
Sales	305,654	282,426
Royalties and other operating income	62,466	37,860
Cost of sales	(131,841)	(127,981)
Gross profit	**236,279**	**192,305**
Marketing and distribution	(32,822)	(35,817)
Research and development	(54,874)	(51,822)
General and administration	(7,954)	(9,614)
Operating profit	**140,629**	**95,052**
Financing costs	(23)	(67)
Other financial income (expense)	(157)	305
Other expense	(884)	(1,510)
Profit before taxes	**139,565**	**93,780**
Income taxes	(37,272)	(24,526)
Net income	**102,293**	**69,254**
Attributable to:		
Chugai shareholders	102,293	69,254
Earnings per share		
Basic (yen)	62.26	42.18
Diluted (yen)	62.18	42.12

2) Interim condensed consolidated statement of comprehensive income in millions of yen

	First six months ended June 30	
	2020	2019
Net income recognized in income statement	**102,293**	**69,254**
Other comprehensive income		
Remeasurements of defined benefit plans	−	(12)
Financial assets measured at fair value through OCI	491	(142)
Items that will never be reclassified to the income statement	**491**	**(154)**
Financial assets measured at fair value through OCI	(22)	3
Cash flow hedges	(140)	(218)
Currency translation of foreign operations	(786)	(1,332)
Items that are or may be reclassified to the income statement	**(949)**	**(1,547)**
Other comprehensive income, net of tax	**(457)**	**(1,701)**
Total comprehensive income	**101,835**	**67,553**
Attributable to:		
Chugai shareholders	101,835	67,553

(2) Interim condensed consolidated balance sheet in millions of yen

	June 30, 2020	December 31, 2019
Assets		
Non-current assets:		
Property, plant and equipment	275,270	255,559
Right-of-use assets	7,669	9,749
Intangible assets	24,017	23,540
Financial non-current assets	3,512	2,958
Deferred tax assets	38,206	42,680
Other non-current assets	27,857	24,750
Total non-current assets	**376,531**	**359,235**
Current assets:		
Inventories	172,050	168,122
Accounts receivable	213,693	181,641
Current income tax assets	0	0
Marketable securities	94,090	129,117
Cash and cash equivalents	196,603	203,941
Other current assets	19,176	16,858
Total current assets	**695,612**	**699,680**
Total assets	**1,072,144**	**1,058,915**
Liabilities		
Non-current liabilities:		
Deferred tax liabilities	(9,235)	(9,304)
Defined benefit plan liabilities	(8,077)	(7,094)
Long-term provisions	(2,314)	(2,348)
Other non-current liabilities	(4,753)	(6,914)
Total non-current liabilities	**(24,379)**	**(25,662)**
Current liabilities:		
Current income tax liabilities	(32,026)	(41,047)
Short-term provisions	(4)	(4)
Accounts payable	(63,176)	(77,635)
Other current liabilities	(46,617)	(60,582)
Total current liabilities	**(141,824)**	**(179,268)**
Total liabilities	**(166,202)**	**(204,930)**
Total net assets	**905,941**	**853,985**
Equity:		
Capital and reserves attributable to Chugai shareholders	905,941	853,985
Total equity	**905,941**	**853,985**
Total liabilities and equity	**1,072,144**	**1,058,915**

(3) Interim condensed consolidated statement of cash flows in millions of yen

	First six months ended June 30	
	2020	2019
Cash flows from operating activities		
Cash generated from operations	159,804	114,436
(Increase) decrease in working capital	(61,368)	(27,096)
Payments made for defined benefit plans	(1,216)	(2,393)
Utilization of provisions	—	(1)
Other operating cash flows	29	(1,418)
Cash flows from operating activities, before income taxes paid	**97,249**	**83,527**
Income taxes paid	(41,875)	(18,231)
Total cash flows from operating activities	**55,373**	**65,296**
Cash flows from investing activities		
Purchase of property, plant and equipment	(40,641)	(10,111)
Purchase of intangible assets	(2,311)	(5,380)
Disposal of property, plant and equipment	(61)	20
Interest and dividends received	56	110
Purchases of marketable securities	(88,000)	(120,499)
Sales of marketable securities	123,000	111,162
Purchases of investment securities	(49)	(895)
Sales of investment securities	326	167
Other investing cash flows	—	0
Total cash flows from investing activities	**(7,680)**	**(25,426)**
Cash flows from financing activities		
Purchase of non-controlling interests	—	(2,307)
Interest paid	(9)	(8)
Lease liabilities paid	(4,236)	(4,464)
Dividends paid to Chugai shareholders	(50,352)	(30,093)
Exercise of equity compensation plans	337	369
(Increase) decrease in own equity instruments	(24)	(11)
Other financing cash flows	—	(16)
Total cash flows from financing activities	**(54,285)**	**(36,530)**
Net effect of currency translation on cash and cash equivalents	(746)	(1,034)
Increase (decrease) in cash and cash equivalents	**(7,337)**	**2,306**
Cash and cash equivalents at January 1	203,941	146,860
Cash and cash equivalents at June 30	**196,603**	**149,165**

(4) Interim condensed consolidated statement of changes in equity in millions of yen

For the first six months ended June 30, 2019 (Jan. 1, 2019 – Jun. 30, 2019)

	Attributable to Chugai shareholders						
	Share capital	Capital surplus	Retained earnings	Other reserves	Subtotal	Non-controlling interests	Total equity
At January 1, 2019	**73,000**	**66,043**	**618,091**	**(1,270)**	**755,864**	**664**	**756,529**
Net income	—	—	69,254	—	69,254	—	69,254
Financial assets measured at fair value through OCI	—	—	—	(139)	(139)	—	(139)
Cash flow hedges	—	—	—	(218)	(218)	—	(218)
Currency translation of foreign operations	—	—	—	(1,332)	(1,332)	—	(1,332)
Remeasurements of defined benefit plans	—	—	(12)	—	(12)	—	(12)
Total comprehensive income	—	—	**69,242**	**(1,689)**	**67,553**	—	**67,553**
Dividends	—	—	(30,097)	—	(30,097)	—	(30,097)
Equity compensation plans	11	1	—	—	12	—	12
Own equity instruments	—	476	—	—	476	—	476
Changes in non-controlling interests	—	—	(1,662)	19	(1,643)	(664)	(2,307)
Transfer from other reserves to retained earnings	—	—	673	(673)	—	—	—
At June 30, 2019	**73,012**	**66,520**	**656,247**	**(3,613)**	**792,165**	—	**792,165**

For the first six months ended June 30, 2020 (Jan. 1, 2020 – Jun. 30, 2020)

	Attributable to Chugai shareholders					
	Share capital	Capital surplus	Retained earnings	Other reserves	Subtotal	Total equity
At January 1, 2020	**73,016**	**67,037**	**722,076**	**(8,143)**	**853,985**	**853,985**
Net income	—	—	102,293	—	102,293	102,293
Financial assets measured at fair value through OCI	—	—	—	470	470	470
Cash flow hedges	—	—	—	(140)	(140)	(140)
Currency translation of foreign operations	—	—	—	(786)	(786)	(786)
Total comprehensive income	—	—	**102,293**	**(457)**	**101,835**	**101,835**
Dividends	—	—	(50,372)	—	(50,372)	(50,372)
Equity compensation plans	186	(846)	—	—	(660)	(660)
Own equity instruments	—	1,153	—	—	1,153	1,153
Transfer from other reserves to retained earnings	—	—	106	(106)	—	—
At June 30, 2020	**73,202**	**67,344**	**774,102**	**(8,706)**	**905,941**	**905,941**

(5) Notes regarding the going concern assumption

None

(6) Notes regarding the interim condensed consolidated financial statements

General accounting principles and significant accounting policies

(a) Basis of preparation of the consolidated financial statements

These financial statements are the interim condensed consolidated financial statements ("Interim 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 Interim Financial Statements were approved by the Board of Directors on July 27, 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 IFRS. The shareholding percentage of Roche Holding Ltd. in Chugai is 59.89% (61.18% 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 Quarterly Consolidated Financial Statements" (Japanese Cabinet Ordinance No. 64, 2007). Hence, in accordance with Article 93 of the same Ordinance, the Interim Financial Statements have been prepared in accordance with International Accounting Standard (IAS) No. 34 "Interim Financial Reporting."

The Interim Financial Statements should be used with the consolidated financial statements for the year ended December 31, 2019 as they do not include all the information as required for the consolidated financial statements for the full fiscal year.

The Interim 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) Key accounting judgments, estimates and assumptions

The preparation of the Interim Financial Statements requires management to make judgments, estimates, and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities, and contingent amounts. Actual outcomes could differ from those management estimates. The estimates and underlying assumptions are reviewed on an on-going basis and are based on historical experience and various other factors. Revisions to estimates are recognized in the period in which the estimate is revised.

The information for judgment, estimates, and assumptions that have a material impact on the amount recognized in the Interim Financial Statements of the Group is principally the same for the prior fiscal year.

In addition, as described in "1. Qualitative Information (1) Consolidated operating results," as the effects of COVID-19 on the second quarter of the fiscal year 2020 have been limited, we assume the impact on performance for the fiscal year ending December 31, 2020 will also be limited, and there is no material impact on the accounting estimates used.

There is a possibility that future changes in the epidemic situation of COVID-19 may pose a significant risk that will cause material corrections to the carrying amounts of assets and liabilities in the next fiscal year onward.

(c) Significant accounting policies

The Group applies the same significant accounting policies that are used in the previous fiscal year to the Interim Financial Statements.