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## CHUGAI PHARMACEUTICAL CO., LTD.

A member of the Roche group

### CONSOLIDATED FINANCIAL STATEMENTS (IFRS) (Non-Audited) (for the third quarter of the fiscal year 2020)

Name of Company: Chugai Pharmaceutical Co., Ltd. October 22, 2020  
 Stock Listing: Tokyo Stock Exchange  
 Security Code No.: 4519 (URL <https://www.chugai-pharm.co.jp/english>)  
 Representative: Tatsuro Kosaka, Chairman & CEO  
 Contact: Masahiko Uchida, Head of Corporate Communications Department  
 Phone: +81-(0)3-3273-0554  
 Date of Submission of Quarterly Marketable Securities Filings: October 28, 2020  
 Date on which Dividend Payments to Commence: —  
 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 third quarter of FY 2020 (January 1, 2020–September 30, 2020)

##### (1) Consolidated operating results

	Revenues	% change	Operating profit	% change	Net income	% change
First nine months of FY 2020	¥576,520 million	13.3	¥227,318 million	41.3	¥162,425 million	38.4
First nine months of FY 2019	¥508,851 million	19.3	¥160,878 million	64.3	¥117,395 million	65.6

	Net income attributable to Chugai shareholders	% change	Total comprehensive income	% change
First nine months of FY 2020	¥162,425 million	38.4	¥162,150 million	41.5
First nine months of FY 2019	¥117,395 million	66.9	¥114,588 million	61.7

	Earnings per share (Basic)	Earnings per share (Diluted)
First nine months of FY 2020	¥98.84	¥98.74
First nine months of FY 2019	¥71.49	¥71.39

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 Sep. 30, 2020	¥1,136,108 million	¥925,270 million	¥925,270 million	81.4%
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 nine months of FY 2020 (Results)	¥576,520 million	+77.9	¥231,881 million	+84.3	¥165,629 million	+82.4
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 nine months of FY 2020 (Results)	¥100.68	+82.5	—
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 nine 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)
- (b) Number of treasury stock at the end of the period
- (c) Average number of shares issued during the period (nine months)

As of Sep. 30, 2020	1,679,057,667	As of Dec. 31, 2019	1,679,057,667
As of Sep. 30, 2020	35,240,868	As of Dec. 31, 2019	36,487,062
First nine months of FY 2020	1,643,316,680	First nine months of FY 2019	1,642,047,952

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): October 22, 2020, Thursday (Japan time).

The English translation of the conference materials will be posted on the website within 2 business days.

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# 1. Qualitative Information

## (1) Consolidated operating results in billions of yen

	First nine months of FY 2020.12 (Jan. 1, 2020–Sep. 30, 2020)	First nine months of FY 2019.12 (Jan. 1, 2019–Sep. 30, 2019)	% change
Core results			
<b>Revenues</b>	<b>576.5</b>	<b>508.9</b>	<b>+13.3</b>
Sales	464.8	440.5	+5.5
Royalties and other operating income	111.7	68.4	+63.3
Cost of sales	(200.3)	(201.3)	(0.5)
<b>Gross profit</b>	<b>376.2</b>	<b>307.5</b>	<b>+22.3</b>
Marketing and distribution	(49.0)	(51.0)	(3.9)
Research and development	(82.2)	(72.0)	+14.2
General and administration	(13.1)	(13.5)	(3.0)
<b>Operating profit</b>	<b>231.9</b>	<b>171.1</b>	<b>+35.5</b>
<b>Net income</b>	<b>165.6</b>	<b>124.5</b>	<b>+33.0</b>
IFRS results			
Revenues	576.5	508.9	+13.3
Operating profit	227.3	160.9	+41.3
Net income	162.4	117.4	+38.3

### Consolidated financial highlights (IFRS results)

Revenues for the nine months under review were ¥576.5 billion (an increase of 13.3% year on year), operating profit for the nine months under review was ¥227.3 billion (an increase of 41.3% year on year), and net income for the nine months under review was ¥162.4 billion (an increase of 38.3% year on year). These results include non-Core items, such as amortization of intangible assets of ¥1.0 billion, impairment loss of intangible assets of ¥0.1 billion, restructuring expenses of ¥3.4 billion, and expenses for environmental measures of ¥0.1 billion, which are excluded from the Core results that Chugai adopts to manage recurring business activities.

### Consolidated financial highlights (Core results)

Revenues for the nine months under review were ¥576.5 billion (an increase of 13.3% year on year), due to increases both in overseas sales and royalties and other operating income, even as domestic sales declined.

Of revenues, sales were ¥464.8 billion (an increase of 5.5% year on year), due to an increase in overseas sales, such as 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, although domestic sales declined mainly as a result of the NHI drug price revisions of April this year. Royalties and other operating income amounted to ¥111.7 billion (an increase of 63.3% 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 43.1%, a 2.6 percentage point improvement year on year, mainly due to an increase in the share of our own products, such as Hemlibra, in the product mix, etc. As a result, gross profit amounted to ¥376.2 billion (an increase of 22.3% year on year).

Operating expenses were ¥144.3 billion (an increase of 5.7% year on year). Marketing and distribution expenses were ¥49.0 billion (a decrease of 3.9% year on year), due to refraining from domestic business activities caused by the spread of COVID-19. Research and development expenses amounted to ¥82.2 billion (an increase of 14.2% year on year) due to an increase in expenses associated with the progress of projects, etc. General and administration expenses amounted to ¥13.1 billion (a decrease of 3.0% year on year) primarily due to a decrease in various expenses. As a result, Core operating profit was ¥231.9 billion (an increase of 35.5% year on year) and Core net income was ¥165.6 billion (an increase of 33.0% 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 nine months of FY 2020.12 (Jan. 1, 2020–Sep. 30, 2020)	First nine months of FY 2019.12 (Jan. 1, 2019–Sep. 30, 2019)	% change
<b>Sales</b>	<b>464.8</b>	<b>440.5</b>	<b>+5.5</b>
<b>Domestic sales</b>	<b>303.2</b>	<b>324.4</b>	<b>(6.5)</b>
Oncology	167.4	179.7	(6.8)
Bone and joint diseases	72.7	80.5	(9.7)
Renal diseases	21.0	25.9	(18.9)
Others	42.1	38.4	+9.6
<b>Overseas sales</b>	<b>161.6</b>	<b>116.0</b>	<b>+39.3</b>

**Domestic sales**

Domestic sales were ¥303.2 billion (a decrease of 6.5% year on year) mainly due to a decrease in sales of mainstay products in the Oncology, Bone and joint diseases, and Renal diseases areas affected by the NHI drug price revisions of April this year and the market penetration of generic drugs.

Oncology products sales were ¥167.4 billion (a decrease of 6.8% 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 that took place this year and the market penetration of generic drugs, despite the market penetration of a new product, Tecentriq (an anti PD-L1 humanized monoclonal antibody, anti-cancer agent) and the steady sales of a mainstay product, Perjeta (a HER2 dimerization inhibitory humanized monoclonal antibody, anti-cancer agent).

Bone and joint diseases products sales were ¥72.7 billion (a decrease of 9.7% 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 this year’s NHI drug price revisions, as well as a decline in sales of Edirool (an osteoporosis agent) due to the launch of generic drugs.

Renal diseases products sales amounted to ¥21.0 billion (a decrease of 18.9% 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 that took place last year and this year.

Others products sales were ¥42.1 billion (an increase of 9.6% 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. In August of this year, we launched Enspryng (a pH-dependent binding humanized anti-IL-6 receptor monoclonal antibody).

**Overseas sales**

Overseas sales amounted to ¥161.6 billion (an increase of 39.3% 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, 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 with respect to the first three quarters of this fiscal year, when the virus was spreading. We will keep a close eye on any changes in the situation and continue our efforts.

Regarding the impact of COVID-19 on performance during the nine months under review, as in the case of the first six months, there were no major negative impacts on revenues and profits at each stage. However, the pandemic has been affecting the progress of certain 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 restraint 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, export of Hemlibra to Roche rose steadily, and export of Actemra to Roche, including those for clinical trials for COVID-19 pneumonia, also continued to increase. Some expenses were curbed mainly due to the restraint from domestic sales activities. Regarding regulatory affairs such as filing applications for approval and response to review, 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, no major impacts have been observed so far. 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, construction of the Chugai Life Science Park Yokohama, which is currently under construction, was partially suspended during the declaration of a state of emergency. However, the impact on the overall construction period is limited because all work has resumed. 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.

**R&D activities**

R&D expenses on a Core basis for the first nine months under review totaled ¥82.2 billion (an increase of 14.2% year on year), and the ratio of R&D expenses to revenue was 14.3%.

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

Oncology

- We obtained approval for the anti-HER2 antibody-tubulin polymerization inhibitor conjugate RG3502 (Product name: Kadcyla) for the additional indication of adjuvant therapy in patients with HER2-positive early breast cancer in August 2020.
- 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 and obtained approval in September 2020. We started global Phase III studies in combination with cabozantinib for the treatment of renal cell carcinoma and stage III NSCLC in July and August 2020, respectively. 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 and obtained approval in September 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 in combination with RG7446 for the treatment of small cell lung cancer, NSCLC, stage III NSCLC and esophageal cancer in February, March, August and September 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 the anti-CD137 agonistic Switch antibody 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 started Phase I study for SPYK04 for the treatment of solid tumors in September 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 pH-dependent binding humanized anti-IL-6 receptor monoclonal antibody SA237/RG6168 (Product name: Enspryng) for the prevention of relapses of neuromyelitis optica spectrum disorder (including neuromyelitis optica) in Japan in June and launched in August 2020. We also obtained approval for the indication of neuromyelitis optica spectrum disorder in the US in August 2020.
- We started global Phase II study for the partial TAAR1 agonist 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 global Phase III study for the anti-C5 recycling antibody SKY59/RG6107 for the treatment of paroxysmal nocturnal hemoglobinuria in September 2020.
- 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

	September 30, 2020	December 31, 2019	% change
Net operating assets (NOA) and Net assets			
Net working capital	288.5	237.2	+21.6
Long-term net operating assets	345.1	309.8	+11.4
<b>Net operating assets (NOA)</b>	<b>633.6</b>	<b>547.0</b>	<b>+15.8</b>
Net cash	318.8	333.1	(4.3)
Other non-operating assets – net	(27.2)	(26.1)	+4.2
<b>Total net assets</b>	<b>925.3</b>	<b>854.0</b>	<b>+8.3</b>
Consolidated balance sheet (IFRS basis)			
Total assets	1,136.1	1,058.9	+7.3
Total liabilities	(210.8)	(204.9)	+2.9
Total net assets	925.3	854.0	+8.3

Net operating assets (NOA) at September 30, 2020 were ¥633.6 billion, an increase of ¥86.6 billion since the end of the previous fiscal year. Of NOA, net working capital was ¥288.5 billion (an increase of ¥51.3 billion since the end of the previous fiscal year), due mainly to increases in accounts receivable and inventories. Long-term net operating assets increased by ¥35.3 billion to ¥345.1 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 ¥14.3 billion since the end of the previous fiscal year to ¥318.8 billion. Other non-operating assets – net decreased by ¥1.1 billion since the end of the previous fiscal year to ¥(27.2) billion due mainly to an increase in derivative financial liabilities.

As a consequence, total net assets were ¥925.3 billion (an increase of ¥71.3 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 nine months of FY 2020.12 (Jan. 1, 2020–Sep. 30, 2020)	First nine months of FY 2019.12 (Jan. 1, 2019–Sep. 30, 2019)	% change
Free cash flows			
Operating profit - IFRS basis	227.3	160.9	+41.3
Operating profit, net of operating cash adjustments	253.0	186.8	+35.4
Operating free cash flows	140.3	131.0	+7.1
<b>Free cash flows</b>	<b>76.4</b>	<b>97.1</b>	<b>(21.3)</b>
Net change in net cash	(14.3)	37.0	—
Consolidated statement of cash flows (IFRS basis)			
Cash flows from operating activities	132.8	128.0	+3.8
Cash flows from investing activities	(57.1)	(30.9)	+84.8
Cash flows from financing activities	(97.2)	(64.7)	+50.2
Net change in cash and cash equivalents	(21.2)	30.2	—
Cash and cash equivalents at September 30	182.7	177.0	+3.2

Operating profit, net of operating cash adjustments, amounted to ¥253.0 billion (an increase of 35.4% 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 nine months under review was a net inflow of ¥140.3 billion (an increase of 7.1% year on year) due to a significant increase in operating profit, etc. despite an increase in net working capital, etc. of ¥56.1 billion, as well as expenditures of ¥47.3 billion for the purchase of property, plant and equipment. 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 ¥76.4 billion (a decrease of 21.3% year on year) due mainly to income taxes paid of ¥66.4 billion.

The net change in net cash calculated by subtracting dividends paid of ¥91.2 billion, etc. from free cash flows was a decrease of ¥14.3 billion.

The net change in cash and cash equivalents, excluding changes in marketable securities and interest-bearing debt, was a net cash outflow of ¥21.2 billion. The cash and cash equivalents balance at the end of this period amounted to ¥182.7 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 the humanized anti-human 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 nine months ended September 30	
	2020	2019
<b>Revenues</b>	<b>576,520</b>	<b>508,851</b>
Sales	464,790	440,450
Royalties and other operating income	111,729	68,401
Cost of sales	(201,200)	(202,001)
<b>Gross profit</b>	<b>375,320</b>	<b>306,850</b>
Marketing and distribution	(49,785)	(54,385)
Research and development	(85,018)	(76,911)
General and administration	(13,199)	(14,676)
<b>Operating profit</b>	<b>227,318</b>	<b>160,878</b>
Financing costs	(42)	(96)
Other financial income (expense)	(991)	6
Other expense	(1,147)	(2,211)
<b>Profit before taxes</b>	<b>225,138</b>	<b>158,577</b>
Income taxes	(62,713)	(41,181)
<b>Net income</b>	<b>162,425</b>	<b>117,395</b>
Attributable to:		
Chugai shareholders	162,425	117,395
Earnings per share		
Basic (yen)	98.84	71.49
Diluted (yen)	98.74	71.39

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

	First nine months ended September 30	
	2020	2019
<b>Net income recognized in income statement</b>	<b>162,425</b>	<b>117,395</b>
Other comprehensive income		
Remeasurements of defined benefit plans	—	(12)
Financial assets measured at fair value through OCI	148	(314)
<b>Items that will never be reclassified to the income statement</b>	<b>148</b>	<b>(327)</b>
Financial assets measured at fair value through OCI	7	4
Cash flow hedges	(748)	411
Currency translation of foreign operations	317	(2,896)
<b>Items that are or may be reclassified to the income statement</b>	<b>(423)</b>	<b>(2,480)</b>
<b>Other comprehensive income, net of tax</b>	<b>(275)</b>	<b>(2,807)</b>
<b>Total comprehensive income</b>	<b>162,150</b>	<b>114,588</b>
Attributable to:		
Chugai shareholders	162,150	114,588

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

	September 30, 2020	December 31, 2019
Assets		
Non-current assets:		
Property, plant and equipment	288,254	255,559
Right-of-use assets	8,955	9,749
Intangible assets	23,790	23,540
Financial non-current assets	3,018	2,958
Deferred tax assets	42,403	42,680
Other non-current assets	27,356	24,750
<b>Total non-current assets</b>	<b>393,777</b>	<b>359,235</b>
Current assets:		
Inventories	179,575	168,122
Accounts receivable	224,311	181,641
Current income tax assets	8	0
Marketable securities	136,128	129,117
Cash and cash equivalents	182,711	203,941
Other current assets	19,598	16,858
<b>Total current assets</b>	<b>742,331</b>	<b>699,680</b>
<b>Total assets</b>	<b>1,136,108</b>	<b>1,058,915</b>
Liabilities		
Non-current liabilities:		
Deferred tax liabilities	(9,105)	(9,304)
Defined benefit plan liabilities	(8,924)	(7,094)
Long-term provisions	(2,117)	(2,348)
Other non-current liabilities	(6,015)	(6,914)
<b>Total non-current liabilities</b>	<b>(26,160)</b>	<b>(25,662)</b>
Current liabilities:		
Current income tax liabilities	(36,895)	(41,047)
Short-term provisions	(365)	(4)
Accounts payable	(87,037)	(77,635)
Other current liabilities	(60,380)	(60,582)
<b>Total current liabilities</b>	<b>(184,678)</b>	<b>(179,268)</b>
<b>Total liabilities</b>	<b>(210,838)</b>	<b>(204,930)</b>
<b>Total net assets</b>	<b>925,270</b>	<b>853,985</b>
Equity:		
Capital and reserves attributable to Chugai shareholders	925,270	853,985
<b>Total equity</b>	<b>925,270</b>	<b>853,985</b>
<b>Total liabilities and equity</b>	<b>1,136,108</b>	<b>1,058,915</b>

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

	First nine months ended September 30	
	2020	2019
Cash flows from operating activities		
Cash generated from operations	256,601	190,031
(Increase) decrease in working capital	(56,051)	(21,531)
Payments made for defined benefit plans	(1,758)	(3,540)
Utilization of provisions	—	(2)
Other operating cash flows	391	(2,402)
<b>Cash flows from operating activities, before income taxes paid</b>	<b>199,183</b>	<b>162,556</b>
Income taxes paid	(66,369)	(34,524)
<b>Total cash flows from operating activities</b>	<b>132,814</b>	<b>128,033</b>
Cash flows from investing activities		
Purchase of property, plant and equipment	(47,301)	(21,073)
Purchase of intangible assets	(3,079)	(6,544)
Disposal of property, plant and equipment	(25)	94
Interest and dividends received	72	141
Purchases of marketable securities	(182,996)	(178,769)
Sales of marketable securities	176,000	172,159
Purchases of investment securities	(70)	(988)
Sales of investment securities	326	4,105
<b>Total cash flows from investing activities</b>	<b>(57,072)</b>	<b>(30,875)</b>
Cash flows from financing activities		
Purchase of non-controlling interests	—	(2,307)
Interest paid	(22)	(23)
Lease liabilities paid	(6,285)	(6,618)
Dividends paid to Chugai shareholders	(91,227)	(56,226)
Exercise of equity compensation plans	386	499
(Increase) decrease in own equity instruments	(28)	(16)
Other financing cash flows	—	(16)
<b>Total cash flows from financing activities</b>	<b>(97,176)</b>	<b>(64,707)</b>
Net effect of currency translation on cash and cash equivalents	205	(2,289)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(21,229)</b>	<b>30,162</b>
Cash and cash equivalents at January 1	203,941	146,860
<b>Cash and cash equivalents at September 30</b>	<b>182,711</b>	<b>177,022</b>

**(4) Interim condensed consolidated statement of changes in equity** in millions of yen**For the first nine months ended September 30, 2019 (Jan. 1, 2019–Sep. 30, 2019)**

	Attributable to Chugai shareholders					Non-controlling interests	Total equity
	Share capital	Capital surplus	Retained earnings	Other reserves	Subtotal		
<b>At January 1, 2019</b>	<b>73,000</b>	<b>66,043</b>	<b>618,091</b>	<b>(1,270)</b>	<b>755,864</b>	<b>664</b>	<b>756,529</b>
Net income	—	—	117,395	—	117,395	—	117,395
Financial assets measured at fair value through OCI	—	—	—	(311)	(311)	—	(311)
Cash flow hedges	—	—	—	411	411	—	411
Currency translation of foreign operations	—	—	—	(2,896)	(2,896)	—	(2,896)
Remeasurements of defined benefit plans	—	—	(12)	—	(12)	—	(12)
<b>Total comprehensive income</b>	<b>—</b>	<b>—</b>	<b>117,383</b>	<b>(2,795)</b>	<b>114,588</b>	<b>—</b>	<b>114,588</b>
Dividends	—	—	(56,373)	—	(56,373)	—	(56,373)
Equity compensation plans	14	42	—	—	56	—	56
Own equity instruments	—	643	—	—	643	—	643
Changes in non-controlling interests	—	—	(1,662)	19	(1,643)	(664)	(2,307)
Transfer from other reserves to retained earnings	—	—	2,433	(2,433)	—	—	—
<b>At September 30, 2019</b>	<b>73,014</b>	<b>66,728</b>	<b>679,872</b>	<b>(6,478)</b>	<b>813,136</b>	<b>—</b>	<b>813,136</b>

**For the first nine months ended September 30, 2020 (Jan. 1, 2020–Sep. 30, 2020)**

	Attributable to Chugai shareholders					Total equity
	Share capital	Capital surplus	Retained earnings	Other reserves	Subtotal	
<b>At January 1, 2020</b>	<b>73,016</b>	<b>67,037</b>	<b>722,076</b>	<b>(8,143)</b>	<b>853,985</b>	<b>853,985</b>
Net income	—	—	162,425	—	162,425	162,425
Financial assets measured at fair value through OCI	—	—	—	155	155	155
Cash flow hedges	—	—	—	(748)	(748)	(748)
Currency translation of foreign operations	—	—	—	317	317	317
<b>Total comprehensive income</b>	<b>—</b>	<b>—</b>	<b>162,425</b>	<b>(275)</b>	<b>162,150</b>	<b>162,150</b>
Dividends	—	—	(91,467)	—	(91,467)	(91,467)
Equity compensation plans	186	(798)	—	—	(613)	(613)
Own equity instruments	—	1,214	—	—	1,214	1,214
Transfer from other reserves to retained earnings	—	—	106	(106)	—	—
<b>At September 30, 2020</b>	<b>73,202</b>	<b>67,453</b>	<b>793,140</b>	<b>(8,524)</b>	<b>925,270</b>	<b>925,270</b>



**(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 October 22, 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% (61.17% 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 third 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.