FASF MEMBERSHIP

CHUGAI PHARMACEUTICAL CO., LTD.

A member of the Roche group

CONSOLIDATED FINANCIAL STATEMENTS (IFRS) (Non-Audited)

(for the fiscal year 2020)

Name of Company: Chugai Pharmaceutical Co., Ltd. February 4, 2021
Stock Listing: Tokyo Stock Exchange
Security Code No.: 4519 (URL https://www.chugai-pharm.co.jp/english)
Representative: Tatsuro Kosaka, Chairman & CEO
Contact: Toshiya Sasai, General Manager of Corporate Communications Department
Phone: +81-(0)3-3273-0554

Date of Annual General Meeting of Shareholders: March 23, 2021
Date of Submission of Marketable Securities Filings: March 23, 2021
Date on which Dividend Payments to Commence: March 24, 2021
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 2020 (January 1, 2020–December 31, 2020)

(1) Consolidated operating results

	Revenues	% change	Operating profit	% change	Net income	% change
FY ended Dec. 2020	¥786,946 million	14.7	¥301,230 million	43.0	¥214,733 million	36.3
FY ended Dec. 2019	¥686,184 million	18.4	¥210,597 million	69.4	¥157,560 million	69.3

	Net income attributable to Chugai shareholders	% change	Total comprehensive income	% change
FY ended Dec. 2020	¥214,733 million	36.3	¥216,748 million	39.7
FY ended Dec. 2019	¥157,560 million	70.4	¥155,127 million	77.1

	Earnings per share (Basic)	Earnings per share (Diluted)
FY ended Dec. 2020	¥130.66	¥130.53
FY ended Dec. 2019	¥95.95	¥95.81

	Ratio of net income to equity attributable to Chugai shareholders	Ratio of operating profit to revenues
FY ended Dec. 2020	23.4%	38.3%
FY ended Dec. 2019	19.6%	30.7%

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	Equity per share attributable to Chugai shareholders
As of Dec. 31, 2020	¥1,235,498 million	¥980,003 million	¥980,003 million	79.3%	¥596.16
As of Dec. 31, 2019	¥1,058,915 million	¥853,985 million	¥853,985 million	80.6%	¥519.91

Note: Effective July 1, 2020, Chugai has implemented a three-for-one stock split of its common stock. "Equity per share attributable to Chugai shareholders" is calculated based on the assumption that the stock split was implemented at the beginning of the previous fiscal year.

(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, 2020	¥205,035 million	¥(98,312) million	¥(99,497) million	¥212,333 million
FY ended Dec. 31, 2019	¥206,641 million	¥(81,741) million	¥(66,872) million	¥203,941 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. 2019	—	¥48.00	—	¥92.00	¥140.00
FY ended Dec. 2020	—	¥75.00	—	¥30.00	—
FY ending Dec. 2021 (Forecast)	—	¥30.00	—	¥30.00	¥60.00

	Total dividends (annual)	Dividend payout ratio (consolidated)	Ratio of dividends to equity attributable to Chugai shareholders (consolidated)
FY ended Dec. 2019	¥76,647 million	48.6%	9.5%
FY ended Dec. 2020	¥90,411 million	42.1%	9.9%
FY ending Dec. 2021 (Forecast)		—%	

Note: 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 dividend per share for the fiscal year ended December 31, 2020 is not stated because the amounts cannot be simply combined due to the implementation of the stock split. The annual dividend per share is ¥165 when calculated based on the assumption of no stock split, and ¥55 when calculated with the stock split taken into account.

3. Consolidated forecasts for FY 2021 (January 1, 2021–December 31, 2021)

	Revenues	% change	Core operating profit	% change	Core net income	% change
FY ending Dec. 2021 (Forecast)	¥800,000 million	+1.7	¥320,000 million	+3.9	¥232,000 million	+5.7
FY ended Dec. 2020 (Results)	¥786,946 million	+14.7	¥307,943 million	+36.9	¥219,437 million	+30.9

	Core earnings per share		Core dividend payout ratio %
FY ending Dec. 2021 (Forecast)	¥141.00	+5.7	42.6
FY ended Dec. 2020 (Results)	¥133.39	+30.9	41.2

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. Core EPS and the percent change from the same period of the previous fiscal year for Core EPS for the fiscal year ended December 31, 2020 (results) are calculated based on the assumption that the stock split was implemented at the beginning of the previous fiscal 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: 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 Dec. 31, 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 Dec. 31, 2020	35,186,586	As of Dec. 31, 2019	36,487,062
(c) Average number of shares issued during the period	FY ended Dec. 31, 2020	1,643,445,409	FY ended Dec. 31, 2019	1,642,140,155

Notes: 1. For an explanation of the number of shares used for computing earnings per share (consolidated), please refer to "Earnings per share" on page 24 of the attached document.

2. 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 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 10, "Basic profit distribution principles and dividends for the fiscal year under review and the following fiscal year" on page 11, and "Management Principles and Goals" on pages 12 - 16 of the attached document.
(4) Chugai is scheduled to hold an online/tele-conference as noted below. The presentation materials, the verbal recording, the Q&A, and other related documents will be posted on the Chugai's website following the conclusion of the conference.
Online/tele-conference for institutional investors, securities analysts and the media (Japanese only): February 4, 2021, Thursday (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		
	2020	2019	% change
Core results			
Revenues	**786.9**	**686.2**	**+14.7**
Sales	633.3	588.9	+7.5
Royalties and other operating income	153.6	97.3	+57.9
Cost of sales	(272.3)	(265.1)	+2.7
Gross profit	**514.7**	**421.1**	**+22.2**
Marketing and distribution	(71.5)	(73.5)	(2.7)
Research and development	(113.5)	(102.1)	+11.2
General and administration	(21.7)	(20.6)	+5.3
Operating profit	**307.9**	**224.9**	**+36.9**
Net income	**219.4**	**167.6**	**+30.9**
IFRS results			
Revenues	786.9	686.2	+14.7
Operating profit	301.2	210.6	+43.0
Net income	214.7	157.6	+36.2

Consolidated financial highlights (IFRS results)
Revenues for the fiscal year under review were ¥786.9 billion (an increase of 14.7% year on year), operating profit for the fiscal year under review was ¥301.2 billion (an increase of 43.0% year on year), and net income for the fiscal year under review was ¥214.7 billion (an increase of 36.2% year on year). These results include non-Core items, such as amortization of intangible assets of ¥1.3 billion, impairment loss of intangible assets of ¥0.6 billion, restructuring expenses of ¥4.7 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 fiscal year under review were ¥786.9 billion (an increase of 14.7% 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 ¥633.3 billion (an increase of 7.5% year on year), due to a significant increase in overseas sales, such as the increase in export of Actemra to Roche, including those for clinical trials for COVID-19 pneumonia, the commencement of export of Hemlibra to Roche at a regular shipment price, and the commencement of export of Enspryng to Roche, although domestic sales declined mainly as a result of the NHI drug price revisions of April 2020. Royalties and other operating income amounted to ¥153.6 billion (an increase of 57.9% 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 43.0%, a 2.0 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 ¥514.7 billion (an increase of 22.2% year on year).

Operating expenses were ¥206.7 billion (an increase of 5.4% year on year). Marketing and distribution expenses were ¥71.5 billion (a decrease of 2.7% year on year), due to refraining from domestic business activities caused by the spread of COVID-19. Research and development expenses amounted to ¥113.5 billion (an increase of 11.2% year on year) due to an increase in expenses associated with the progress of projects, etc. General and administration expenses amounted to ¥21.7 billion (an increase of 5.3% year on year) primarily due to increases in the enterprise tax (pro forma standard taxation) and various expenses. As a result, Core operating profit was ¥307.9 billion (an increase of 36.9% year on year) and Core net income was ¥219.4 billion (an increase of 30.9% year on year).

Meanwhile, compared to the full year forecast announced on January 30, 2020, revenues increased by 6.3% to ¥786.9 billion, exceeding the initial forecast, primarily as a result of an increase in exports to Roche, including the export of Actemra. Additionally, operating expenses decreased by 3.0% compared to the forecast to ¥206.7 billion, due to the decrease in marketing and distribution and other expenses, as a result of refraining from domestic business activities caused by the spread of COVID-19. As a result, Core operating profit was ¥307.9 billion (an increase of 12.0% compared to the forecast).

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		
	2020	2019	% change
Sales	**633.3**	**588.9**	**+7.5**
Domestic sales	**409.1**	**437.6**	**(6.5)**
Oncology	229.5	240.5	(4.6)
Bone and joint diseases	92.4	108.4	(14.8)
Renal diseases	28.6	34.6	(17.3)
Others	58.7	54.1	+8.5
Overseas sales	**224.2**	**151.3**	**+48.2**

Domestic sales
Domestic sales were ¥409.1 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 2020 and the market penetration of generic drugs.

Oncology products sales were ¥229.5 billion (a decrease of 4.6% 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 NHI drug price revisions 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 mainstay products, Alecensa (an ALK inhibitor, anti-cancer agent) and Perjeta (a HER2 dimerization inhibitory humanized monoclonal antibody, anti-cancer agent).

Bone and joint diseases products sales were ¥92.4 billion (a decrease of 14.8% 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 NHI drug price revisions, as well as a significant decline in sales of Edirol (an osteoporosis agent) due to the launch of generic drugs.

Renal diseases products sales amounted to ¥28.6 billion (a decrease of 17.3% 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 NHI drug price revisions.

Others products sales were ¥58.7 billion (an increase of 8.5% year on year) due to the market penetration of a new product, Hemlibra (blood coagulation factor VIII substitute), “FoundationOne CDx Cancer Genomic Profile” (genomic mutation analysis program), and Enspryng (a pH-dependent binding humanized anti-IL-6 receptor monoclonal antibody), which was launched in August 2020, despite a significant drop in regular seasonal sales of Tamiflu (an anti-influenza agent) compared to the previous fiscal year.

Meanwhile, compared to the full year forecast announced on January 30, 2020, domestic sales decreased by 0.6% to ¥409.1 billion, due to the better-than-expected sales of the mainstay products including Avastin and Perjeta, despite the impact of the COVID-19 pandemic on the introduction of new products and those with new additional indications, such as Hemlibra and Tecentriq.

Overseas sales

Overseas sales amounted to ¥224.2 billion (an increase of 48.2% year on year) due to an increase in export of Actemra to Roche, including those for clinical trials for COVID-19 pneumonia, the commencement of export of Hemlibra to Roche at a regular shipment price, and the commencement of export of Enspryng to Roche.

Meanwhile, compared to the full year forecast announced on January 30, 2020, overseas sales increased by 33.1% to ¥224.2 billion, due to the significantly better-than-expected exports to Roche, including the substantial increase in export of Actemra to Roche.

<Initiatives for COVID-19 and impact on performance>

Our response to COVID-19 throughout the year 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. 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 fiscal year under review, there were no major negative impacts on revenues and profits at each stage. However, the pandemic has affected 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 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, export of Actemra to Roche increased, including those for clinical trials for COVID-19 pneumonia. Additionally, while export of Hemlibra to Roche rose steadily, royalties were affected due to the overseas market penetration of Hemlibra taking longer than Chugai initially expected. Some expenses were curbed mainly due to the restrain from domestic sales activities. Regarding regulatory affairs such as filing applications for approval and response to review, the timing of filing or approval was not significantly affected. In projects under development, while there were 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 were observed. Regarding drug discovery research activities, we changed the schedule for some projects, but there was 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.

As described above, while COVID-19 affected the progress of certain business activities, 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

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 ¥113.5 billion (an increase of 11.2% 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 December 31, 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 study in combination with cabozantinib for the treatment of renal cell carcinoma and global Phase III study in combination with RG6058 for stage III NSCLC in July and August 2020, respectively. We also started global Phase I study in combination with RG6058 or RG1569 for the treatment of pancreatic adenocarcinoma in October 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 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 and started global Phase III study in October 2020.
- We started Phase I study for SPYK04 for the treatment of solid tumors in September 2020.
- We started global Phase I study for the anti-HER2/CD3 bispecific antibody RG6194 for the treatment of solid tumors in November 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.

Bone and Joint

- We obtained approval in China for activated vitamin D3 agent ED-71 (Product name: Edirol) for the indication of osteoporosis in December 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 filed SMN2 splicing modifier RG7916 for the treatment of spinal muscular atrophy in October 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.

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, 2020	December 31, 2019	Change in amount
Net operating assets (NOA) and Net assets			
Net working capital	300.0	237.2	62.8
Long-term net operating assets	346.0	309.8	36.2
Net operating assets (NOA)	**646.0**	**547.0**	**99.0**
Net cash	378.6	333.1	45.5
Other non-operating assets – net	(44.6)	(26.1)	(18.5)
Total net assets	**980.0**	**854.0**	**126.0**
Consolidated balance sheet (IFRS basis)			
Total assets	1,235.5	1,058.9	176.6
Total liabilities	(255.5)	(204.9)	(50.6)
Total net assets	980.0	854.0	126.0

Net operating assets (NOA) at December 31, 2020 were ¥646.0 billion, an increase of ¥99.0 billion since the end of the previous fiscal year. Of NOA, net working capital was ¥300.0 billion (an increase of ¥62.8 billion since the end of the previous fiscal year), due mainly to an increase in accounts receivable. Long-term net operating assets increased by ¥36.2 billion to ¥346.0 billion since the end of the previous fiscal year, mainly due to the investment in the Chugai Life Science Park Yokohama.

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 ¥45.5 billion since the end of the previous fiscal year to ¥378.6 billion. Other non-operating assets – net decreased by ¥18.5 billion since the end of the previous fiscal year to ¥(44.6) billion, due mainly to an increase in current income tax liabilities.

As a consequence, total net assets were ¥980.0 billion (an increase of ¥126.0 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 9, 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 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		
	2020	2019	% change
Free cash flows			
Operating profit - IFRS basis	301.2	210.6	+43.0
Operating profit, net of operating cash adjustments	335.5	245.2	+36.8
Operating free cash flows	201.2	181.4	+10.9
Free cash flows	**135.4**	**142.6**	**(5.0)**
Net change in net cash	45.5	83.9	(45.8)
Consolidated statement of cash flows (IFRS basis)			
Cash flows from operating activities	205.0	206.6	(0.8)
Cash flows from investing activities	(98.3)	(81.7)	+20.3
Cash flows from financing activities	(99.5)	(66.9)	+48.7
Net change in cash and cash equivalents	8.4	57.0	(85.3)
Cash and cash equivalents at December 31	212.3	203.9	+4.1

Operating profit, net of operating cash adjustments, amounted to ¥335.5 billion (an increase of 36.8% 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 ¥201.2 billion (an increase of 10.9% year on year) due to a significant increase in operating profit, etc., despite an increase in net working capital, etc. of ¥64.4 billion, as well as expenditures of ¥57.0 billion for the purchase of property, plant and equipment. Factors accounting for the increase in net working capital, etc. are as indicated in “(2) Overview of financial position for the fiscal year under review.”

Free cash flows were a net cash inflow of ¥135.4 billion (a decrease of 5.0% year on year) due mainly to income taxes paid of ¥66.8 billion.

The net change in net cash calculated by subtracting dividends paid of ¥91.4 billion, etc. from free cash flows was an increase of ¥45.5 billion.

The net change in cash and cash equivalents, excluding changes in marketable securities and interest-bearing debt, was a net cash inflow of ¥8.4 billion. The cash and cash equivalents balance at the end of this period amounted to ¥212.3 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 10, entitled “Cash flows.”

Cash flow related indicators

	Year ended December 31			
	2020	2019	2018	2017
Ratio of equity attributable to Chugai shareholders (%)	79.3	80.6	82.2	81.2
Ratio of equity attributable to Chugai shareholders on a market basis (%)	732.2	521.2	379.7	370.1
Interest-bearing debt to cash flows ratio (%)	—	—	0.2	0.3
Interest-coverage ratio (times)	6,067.7	7,537.5	26,274.1	19,772.7

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 ¥116/CHF, ¥126/EUR, ¥105/USD, and ¥78/SGD.

Outlook for the fiscal year

Revenues

The negative impact from intensifying competition associated primarily with launches of biosimilars and generics as well as NHI drug price revisions will exceed the sales growth in new products such as Hemlibra or Tecentriq, etc., which will result in ¥393.7 billion (a decrease of 3.8% year on year) of Domestic sales.
Overseas sales are expected to increase to the amount of ¥237.3 billion (an increase of 5.8% year on year), assuming a steady growth of the export of Hemlibra to Roche, despite the expected decrease in sales of Actemra, for which a large amount of additional exports were made in the previous fiscal year.
Royalties and other operating income are expected to reach ¥169.0 billion (an increase of 10.0% year on year). Royalty and profit-sharing income are forecasted to rise to ¥163.0 billion (an increase of 25.8% year on year) because of increases in royalties from Roche mainly for Hemlibra. Other operating income is expected to decrease to ¥6.0 billion (a decrease of 75.1% year on year) due to a decrease of one-time income.

Core Operating Profit / Core EPS

Gross profit is expected to rise to ¥547.5 billion (an increase of 6.4% year on year), assuming a 3.0 percentage point improvement year on year of the cost to sales ratio to 40.0%, due to a change in the product mix, etc., in addition to an increase in revenues. On the other hand, total expenses are expected to be the amount of ¥227.5 billion (an increase of 10.1% year on year). Particularly, expenses for research and development are expected to increase to ¥131.5 billion (an increase of 15.9% year on year) due to the increase of research and development activities such as progress in development themes.
Core operating profit is expected to be ¥320.0 billion (an increase of 3.9% year on year) and Core net income is expected to be ¥232.0 billion (an increase of 5.7% year on year). Core EPS is forecasted to be ¥141.00 (an increase of 5.7% year on year).

(Billions of yen)

	Outlook for FY 2021	% change
Revenues	800.0	+1.7
Sales	631.0	(0.4)
Core operating profit	320.0	+3.9
Core net income	232.0	+5.7

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

Taking into account strategic funding needs and earnings prospects, Chugai sets a target for consolidated dividend payout ratio of 45% on average in comparison with Core EPS, with an aim to continuously 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, 2020, Chugai achieved the highest results in the past, which resulted in Core EPS increasing by 30.9% year on year.

Reflecting the favorable results and based on our principles of “a stable allocation of profit” and “aiming for a consolidated dividend payout ratio of 45% on average in comparison with Core EPS,” year-end dividends for the fiscal year ended December 31, 2020 are planned to be ¥30 per share. As a result, interim dividends will be ¥75 (prior to the stock split), year-end dividends will be ¥30 (after the stock split), total dividends calculated based on the assumption that the stock split was implemented at the beginning of the fiscal year will be ¥55 per share, and the Core dividend payout ratio is 41.2% (an average of 44.9% for the past five years).

For the following fiscal year ending December 31, 2021, Chugai expects annual dividends of ¥60 including interim dividends of ¥30. As a result, the Core dividend payout ratio for 2021 is expected to be 42.6% (43.8% on a five-year average basis).

	Amount decided	Latest forecast for dividend (January 30, 2020)	Actual in the previous fiscal year (ended Dec. 31, 2019)
Record date	December 31, 2020	December 31, 2020	December 31, 2019
Dividends per share	¥30.00	¥25.00	¥92.00
Total dividends	¥49,316 million	—	¥50,372 million
Effective date	March 24, 2021	—	March 31, 2020
Dividend resource	Retained earnings	—	Retained earnings

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 presents the amount prior to the stock split.

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 ourselves to adding value by creating and delivering innovative products and services for the medical community and human health around the world" and its goal of "becoming a top innovator for advanced and sustainable patient-centric healthcare."

As the Group works to achieve these goals, it will carry out its business activities in line with its core values of "Patient Centric," "Pioneering Spirit" and "Integrity."

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, and prioritizes the allocation of management resources to the development of innovative new drugs when formulating business plans. Meanwhile, the Group also works to conduct flexible and agile business operations, in order to achieve stable profit growth over the short- to medium-term. In addition, whenever making investment decisions such as individual development projects, the Group carries out an evaluation of investment value based on capital costs, and makes decisions with emphasis on profitability and efficiency.

Under such policy, the Group has formulated and implemented medium-term plans such as "IBI 18" and "IBI 21." However, due to a drastic change in Chugai's revenue structure, innovative products developed in-house have gained importance in terms of revenue, in recent years. As the sources of revenue have expanded to markets around the world, revenue is now affected more than ever by overseas market trends.

As for the external environment, the competitive environment is changing significantly, as seen by the digitization of the healthcare industry, the evolution of drug discovery technologies, issues regarding sources of medical financing, and active cross-border business combinations and alliances. Against the backdrop of such a rapidly changing business environment, Chugai has reached the conclusion that it would be difficult to set medium- to long-term quantitative targets and announce them externally. Accordingly, the Group will no longer disclose quantitative targets for the medium-term plan, from fiscal year 2021. Meanwhile, the Group will continue to disclose the status of progress of its business activities, by explaining business strategies and the outlook for R&D pipelines, and indicate the path for achieving these objectives. The Group plans to continue disclosing annual earnings forecasts and providing explanation on the management status at briefing sessions and other meetings, in order to report the progress of the business strategies set forth by Chugai in a timely manner.

(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 has become a common issue in the world. Due to the global COVID-19 pandemic that broke out in 2020, the role and importance of medical care in society are being keenly recognized, and expectations for the medical industry also continue to rise. In addition, more and more stringent policies to curb medical expenditures, including drug costs, are being implemented amid the strain on medical budgets in each country. As such, in order to realize advanced and sustainable medical care with limited resources, the trend toward VBHC (Value Based Healthcare) is gaining momentum, in which only solutions that offer true value are pursued.

While the dramatic progress of life science and digital technologies has resulted in expanded opportunities to generate innovation for solving medical issues, digital and IT companies, as well as various other players are now pursuing innovation in the healthcare area. As a result, competition beyond the scope of existing companies is intensifying more than ever.

Under these circumstances, the pursuit of "innovation" is the most important challenge in order to fulfill the Group's mission of providing innovative drugs. 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 abilities, 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. Amid an increasingly severe business environment for pharmaceutical companies due to increased financial pressure on a worldwide scale, there is even greater need of transformation to a structure that enables concentrated investment of limited resources on innovation.

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 continuously 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, Enspryng and 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, Hemlibra and Enspryng, which was launched in 2020, in the global market, while generating the next innovative new drugs ahead of competitors through swift development and demonstrating high patient value, in an aim for sustainable profit growth. In addition, amid a rising need for diagnosis, prevention and treatment of COVID-19, the Group will continue to strive for the development of medicines that utilize its proprietary drug discovery technologies.

In addition to these challenges in the pharmaceutical industry, there are growing threats to the sustainability of the social system, including recent changes in the global environment and widening economic disparity. In order to sustainably develop business activities, Chugai recognizes that it, too, must seriously face up to such social issues, and further evolve its initiatives with respect to business activities.

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

The Group has worked on initiatives under its medium-term business plan "IBI 21," which covers the three-year period from 2019 to 2021.

In quantitative terms, the Group had set its target for average annual growth in its Core EPS, at around 30% for the three years of the plan (assuming constant exchange rates, no stock split during the period). Due to the substantial growth of in-house products such as Hemlibra and Actemra in the global market, and the expansion of new products such as Hemlibra and Tecentriq in the domestic market, the average annual growth in its Core EPS reached 49.5% in the two years up to 2020, thus progressing at a level higher than expected.

In qualitative terms as well, five new projects were added to the portfolio of drug discovery and development during the two years, and four in-house developed products, including the STA551 next-generation antibody, advanced to the clinical phase. In addition, a Phase III clinical trial for crovalimab (SKY59) was started, which is expected to be a new growth driver. Furthermore, the development of middle molecule drugs, which the Group aims to establish as a next-generation core technology, also advanced steadily in preparation for the start of clinical studies during fiscal year 2021.

In the global market, the in-house developed products Hemlibra, Actemra and Alecensa showed considerable growth, while the new in-house developed product, Enspryng obtained approval in Japan, the United States, and other countries around the world. In the domestic market, the new product Tecentriq obtained approval for additional indications for multiple types of cancer, resulting in market penetration. In 2019, Chugai launched "FoundationOne CDx Cancer Genomic Profile," a system for comprehensive genomic profiling for cancer using next-generation sequencers, and its application is solidly underway at designated cancer genome hospitals.

Regarding the strengthening of its management infrastructure, the Group initiated the operation of a new personnel system, which focuses on the further advancement of talent management as well as a roles and performance-based approach, in April 2020, as the Group made a fresh start toward promoting the active participation and nurturing of the human resources who drive innovation. In addition, the Group formulated "Chugai Digital Vision 2030," which aims to realize business transformation through digital transformation, in order to leverage digital technology to vigorously promote the optimization of value chains, and the further advancement and optimization of new drug creation capabilities. Furthermore, the Group has strengthened its sustainability platform, including ESGs. In 2020, Chugai was selected for the first time as a constituent of the "Dow Jones Sustainability Index World," which is the world's leading ESG index, and has come to be regarded as a highly sustainable company under global standards.

As such, under “IBI 21,” which concludes in fiscal year 2021, the Group realized revenue expansion and profit growth at a level significantly higher than initially expected, thereby achieving the profit target for three years in only two years, in quantitative terms. In qualitative terms as well, the Group realized results that exceeded the targets and established a significant foundation for further growth through the generation of innovation. In view of these circumstances, the Group has decided to conclude “IBI 21” one year ahead of schedule, and to launch initiatives under a new strategy with the aim of further accelerating growth.

(5) New growth strategy for 2030 “TOP I 2030”

The Group has formulated “TOP I 2030,” a new growth strategy for 2030, with a view toward realizing the Envisioned Future set out in its Mission Statement, while concluding “IBI 21” one year ahead of schedule.

The twin pillars of “TOP I 2030” consist of “realizing the world’s highest standard of drug discovery” and “establishing an advanced business model.”

By making use of its unique science and technology, Chugai has successfully created numerous innovative new drugs. In the next decade, the Group will seek to build and strengthen its system for continuously delivering solutions that respond to the unmet medical needs of the world, while making substantial improvements to its drug discovery capabilities. Specifically, the Group aims to double its current R&D output over the next ten years, in order to become a company that is capable of launching innovative in-house developed global products every year.

The Group will also work on creating an advanced business model that takes into account changes in the environment and technological evolution. In particular, the Group aims to dramatically improve productivity throughout its value chain, and to expand patient value and product value, through processes that are centered on the digitalization and fundamental restructuring of the value creation model.

The “end goals” for 2030 are as presented below:

1. “Offers hope to patients around the world”
   A company with drug discovery capabilities that meet the world’s highest standards, and which offers hope to patients around the world, that “Chugai will always create new treatments”

2. “Attracts human resources and players around the world”
   A company that attracts passionate human resources from all over the world, and gives players involved in healthcare around the world the belief that “collaborating with Chugai will give birth to something new”

3. “A global role model”
   A company that serves as a global role model, due to recognition for its ESG initiatives through its business activities, and by playing a leading role in solving social issues

In “TOP I 2030,” the Group has set forth “five reforms” in line with its value chain, as specific initiatives to realize the twin pillars of the strategy. These reforms comprise “drug discovery reform,” “development reform,” “pharmaceutical reform,” “Value Delivery reform” and “growth foundation reform.”

1) Drug discovery reform

In “TOP I 2030,” the Group will aim to further strengthen its drug discovery technology foundation, in order to materialize original drug discovery ideas based on its accumulated strengths in drug discovery, including protein engineering technology. In addition, the Group will concentrate resources on a company-wide basis, on drug discovery and early development, in order to create maximum value and produce results with adequate investment. In particular, in middle molecule drugs, which are expected to constitute the mainstay for driving the Group’s medium- to long-term growth, the Group will give priority to investing resources in technology development and clinical projects for early commercialization. The Group will also strive to diversify and accelerate drug discovery technologies, through the effective utilization of digital technologies including AI, as well as proactive external collaboration.

2) Development reform

In order to deliver ground-breaking projects, as quickly as possible to as many patients as possible, the Group will build a top-class clinical development model in the industry that makes maximum use of mathematical models and digital technologies. The Group will enhance the predictability of dosing options, efficacy, and safety by precisely understanding biological reactions and thoroughly utilizing various disease and treatment data accumulated in-house, as well as real-world data (RWD). At the same time, the Group will utilize digital biomarkers and digital devices to demonstrate the QOL of patients at an early stage. In addition, the Group will work on a fundamental reform of its operations model, with a view toward enhancing operational efficiency of late-stage clinical development.

3) Pharmaceutical reform
While the Group aims to substantially expand its R&D output, the pursuit of world-class pharmaceutical technologies that steadily commercialize innovative drug discovery will also represent an important challenge. The Group will further strengthen the collaboration between the drug discovery/development and pharmaceutical functions, in order to advance the development of pharmaceutical technologies for drugs with a high degree of difficulty, such as middle molecules, through the application of leading-edge technologies. With regard to antibody drugs, which are expected to continue evolving as a core technology, the Group will continue to work to further promote technological development and to improve the speed of development.

Meanwhile, the Group will also pursue world-class cost competitiveness and cost reduction, by building next-generation plants that dramatically improve productivity by means of digital and robotics technologies, and by optimizing insourcing and outsourcing.

4) Value Delivery reform
The customer contact points of pharmaceutical companies are also changing significantly owing to the development of digital tools and the impact of the spread of COVID-19. By also taking such changes into account, the Group will aim to establish an innovative customer engagement model, in order to deliver the information required by healthcare professionals and patients accurately and promptly, while ensuring a high level of expertise. Specifically, the Group will build a system that is capable of providing valuable information to customers promptly and optimally, through the appropriate utilization of face-to-face, remote and digital systems, as well as suitable collaboration among the specialized functions of sales, safety and medical functions.

In addition, the Group will advance the generation of evidence that promotes Personalized Healthcare, and also accelerate the development of biomarkers that accurately predict efficacy and safety for each patient, through the comprehensive analysis and utilization of various databases accumulated through drug discovery and development, as well as real-world data.

5) Growth foundation reform
In parallel with the reforms of each value chain, the Group will also work to strengthen its company-wide foundation, which supports the generation of innovation and the realization of its growth strategy. The Group has specifically set out the following five themes, as priority areas.

“Human resources/organization”: Through operation of the new personnel system, which commenced in 2020, the Group will strive to achieve further advances in talent management, thoroughly assign the right personnel to the right positions, and enhance the corporate culture to encourage personnel to boldly take on challenges. The Group will also focus on the acquisition, nurturing and provision of a sufficient number of highly specialized human resources, who will be the key in implementing business strategies, such as those in the fields of digital technology and science, including data scientists.

“Digital”: The Group will work to promote the digitalization of each value chain, while building a digital platform for both software and hardware. The Group will aim to establish a global-level IT platform, by integrating various in-house data and building an analysis platform in collaboration with the Roche Group.

“ESG”: Following “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. The Group will also continue to advance Group-wide responses to ESG issues, which were highly evaluated through the selection of Chugai as a constituent of the “Dow Jones Sustainability Index World (DJSI-World).”

“Quality”: The Group has worked to advance not only product quality, but also quality management, with respect to its responses to pharmaceutical affairs and the entire business processes. However, going forward, the Group will also enhance the development and implementation of quality management methods, in anticipation of changing business processes, including responding to new regulations accompanying a variety of technological evolution and modality challenges, enhancing digital compliance, and developing a quality assurance system in anticipation of expanded collaboration with external parties.

“Insight Business”: The Group will accelerate initiatives to extract and utilize various insights that contribute to in-house drug discovery and development, and maximization of the value of drugs, by performing advanced analysis on the accumulated data obtained in each phase of drug discovery, development, pharmaceuticals and Value Delivery, as well as external data, including real-world data. The Group will promote these initiatives while working in cooperation with Roche Group companies, including Flatiron Health, Foundation Medicine and Roche Diagnostics.

There are currently a large number of unmet medical needs worldwide, for which no treatments yet exist or treatment satisfaction is low, and patients around the world are eagerly awaiting the emergence of effective treatments. Solving each of these unmet medical needs is the need of society, and this is also the mission of the Chugai Group, as well as an opportunity for growth as a company. With the aim of becoming "a top innovator in the healthcare industry," as set out in the Mission Statement, the Group will continue to pursue the development of society and its own growth through innovation, by steadily implementing the five reforms formulated in the new growth strategy, "TOP I 2030."

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	
	2020	2019
Revenues	**786,946**	**686,184**
Sales	633,314	588,896
Royalties and other operating income	153,631	97,288
Cost of sales	(273,465)	(266,071)
Gross profit	**513,481**	**420,113**
Marketing and distribution	(72,585)	(77,183)
Research and development	(117,850)	(107,942)
General and administration	(21,816)	(24,391)
Operating profit	**301,230**	**210,597**
Financing costs	(62)	(125)
Other financial income (expense)	(1,477)	545
Other expense	(1,504)	(3,124)
Profit before taxes	**298,188**	**207,893**
Income taxes	(83,455)	(50,333)
Net income	**214,733**	**157,560**
Attributable to:		
Chugai shareholders	214,733	157,560
Earnings per share		
Basic (yen)	130.66	95.95
Diluted (yen)	130.53	95.81

2) Consolidated statement of comprehensive income in millions of yen

	Year ended December 31	
	2020	2019
Net income recognized in income statement	**214,733**	**157,560**
Other comprehensive income		
Remeasurements of defined benefit plans	3,630	329
Financial assets measured at fair value through OCI	(22)	(255)
Items that will never be reclassified to the income statement	**3,608**	**74**
Financial assets measured at fair value through OCI	12	(17)
Cash flow hedges	(3,072)	(1,317)
Currency translation of foreign operations	1,467	(1,172)
Items that are or may be reclassified to the income statement	**(1,593)**	**(2,506)**
Other comprehensive income, net of tax	**2,015**	**(2,433)**
Total comprehensive income	**216,748**	**155,127**
Attributable to:		
Chugai shareholders	216,748	155,127

(2) **Consolidated balance sheet** in millions of yen

	December 31, 2020	December 31, 2019
Assets		
Non-current assets:		
Property, plant and equipment	289,218	255,559
Right-of-use assets	8,272	9,749
Intangible assets	23,880	23,540
Financial non-current assets	2,841	2,958
Deferred tax assets	47,934	42,680
Defined benefit plan assets	492	—
Other non-current assets	27,954	24,750
Total non-current assets	**400,592**	**359,235**
Current assets:		
Inventories	183,893	168,122
Accounts receivable	253,342	181,641
Current income tax assets	12	0
Marketable securities	166,287	129,117
Cash and cash equivalents	212,333	203,941
Other current assets	19,039	16,858
Total current assets	**834,906**	**699,680**
Total assets	**1,235,498**	**1,058,915**
Liabilities		
Non-current liabilities:		
Deferred tax liabilities	(9,166)	(9,304)
Defined benefit plan liabilities	(2,282)	(7,094)
Long-term provisions	(2,142)	(2,348)
Other non-current liabilities	(5,835)	(6,914)
Total non-current liabilities	**(19,425)**	**(25,662)**
Current liabilities:		
Current income tax liabilities	(63,171)	(41,047)
Short-term provisions	(358)	(4)
Accounts payable	(100,396)	(77,635)
Other current liabilities	(72,146)	(60,582)
Total current liabilities	**(236,070)**	**(179,268)**
Total liabilities	**(255,495)**	**(204,930)**
Total net assets	**980,003**	**853,985**
Equity:		
Capital and reserves attributable to Chugai shareholders	980,003	853,985
Total equity	**980,003**	**853,985**
Total liabilities and equity	**1,235,498**	**1,058,915**

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

	Year ended December 31	
	2020	2019
Cash flows from operating activities		
Cash generated from operations	340,228	249,500
(Increase) decrease in working capital	(64,421)	6,205
Payments made for defined benefit plans	(4,656)	(11,540)
Utilization of provisions	(26)	(2)
Other operating cash flows	694	(2,741)
Cash flows from operating activities, before income taxes paid	**271,820**	**241,423**
Income taxes paid	(66,785)	(34,782)
Total cash flows from operating activities	**205,035**	**206,641**
Cash flows from investing activities		
Purchase of property, plant and equipment	(57,040)	(53,009)
Purchase of intangible assets	(4,349)	(8,168)
Disposal of property, plant and equipment	(22)	119
Interest and dividends received	100	197
Purchases of marketable securities	(248,143)	(256,768)
Sales of marketable securities	211,000	230,158
Purchases of investment securities	(177)	(1,013)
Sales of investment securities	319	6,743
Other investing cash flows	―	0
Total cash flows from investing activities	**(98,312)**	**(81,741)**
Cash flows from financing activities		
Purchase of non-controlling interests	―	(2,307)
Interest paid	(34)	(27)
Lease liabilities paid	(8,432)	(8,861)
Dividends paid to Chugai shareholders	(91,442)	(56,370)
Exercise of equity compensation plans	440	735
(Increase) decrease in own equity instruments	(30)	(25)
Other financing cash flows	―	(16)
Total cash flows from financing activities	**(99,497)**	**(66,872)**
Net effect of currency translation on cash and cash equivalents	1,166	(947)
Increase (decrease) in cash and cash equivalents	**8,393**	**57,081**
Cash and cash equivalents at January 1	203,941	146,860
Cash and cash equivalents at December 31	**212,333**	**203,941**

(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, 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**
Year ended December 31, 2020							
At January 1, 2020	**73,016**	**67,037**	**722,076**	**(8,143)**	**853,985**	—	**853,985**
Net income	—	—	214,733	—	214,733	—	214,733
Financial assets measured at fair value through OCI	—	—	—	(9)	(9)	—	(9)
Cash flow hedges	—	—	—	(3,072)	(3,072)	—	(3,072)
Currency translation of foreign operations	—	—	—	1,467	1,467	—	1,467
Remeasurements of defined benefit plans	—	—	3,630	—	3,630	—	3,630
Total comprehensive income	—	—	**218,363**	**(1,615)**	**216,748**	—	**216,748**
Dividends	—	—	(91,467)	—	(91,467)	—	(91,467)
Equity compensation plans	186	(774)	—	—	(588)	—	(588)
Own equity instruments	—	1,324	—	—	1,324	—	1,324
Transfer from other reserves to retained earnings	—	—	121	(121)	—	—	—
At December 31, 2020	**73,202**	**67,586**	**849,093**	**(9,879)**	**980,003**	—	**980,003**

(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 February 4, 2021.

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% (61.17% 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 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. Key accounting judgments, estimates and assumptions

The preparation of the Consolidated 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.

As described in “1. Overview of Operating Results, etc. (1) Overview of operating results for the fiscal year under review,” as the effects of COVID-19 on the fiscal year under review have been limited, we assume the impact on performance for the fiscal year under review is also 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 accounting policies that were applied to the Consolidated Financial Statements of the previous fiscal year.
Although minor changes have been made to certain accounting standards, they do not have a material impact on the Group’s overall results and financial position.

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, 2021 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

	2020		2019	
	Sales	Royalties and other operating income	Sales	Royalties and other operating income
Japan	409,106	9,852	437,561	6,404
Overseas	224,209	143,779	151,335	90,884
of which Switzerland	205,180	142,403	134,330	87,731
Total	**633,314**	**153,631**	**588,896**	**97,288**

Information by major customer in millions of yen

	2020	2019
F. Hoffmann-La Roche Ltd.	347,583	217,265
Alfresa Corporation	105,066	114,202

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 ¥1,504 million of adjustment from transfer pricing taxation.

4) Earnings per share

Basic earnings per share

	2020	2019
Net income attributable to Chugai shareholders (millions of yen)	**214,733**	**157,560**
Weighted average number of common stock	1,679,057,667	1,679,057,667
Weighted average number of treasury stock	(35,612,258)	(36,917,512)
Weighted average number of shares in issue	**1,643,445,409**	**1,642,140,155**
Basic earnings per share (yen)	**130.66**	**95.95**

Note: Effective July 1, 2020, Chugai has implemented a three-for-one stock split of its common stock in accordance with the resolution at the meeting of the Board of Directors held on January 21, 2020. Basic earnings per share is calculated based on the assumption that the stock split was implemented at the beginning of the previous fiscal year.

Diluted earnings per share

	2020	2019
Net income attributable to Chugai shareholders (millions of yen)	**214,733**	**157,560**
Weighted average number of shares in issue	1,643,445,409	1,642,140,155
Adjustment for assumed exercise of equity compensation plans, where dilutive	1,637,632	2,369,447
Weighted average number of shares in issue used to calculate diluted earnings per share	**1,645,083,041**	**1,644,509,602**
Diluted earnings per share (yen)	**130.53**	**95.81**

Note: Effective July 1, 2020, Chugai has implemented a three-for-one stock split of its common stock in accordance with the resolution at the meeting of the Board of Directors held on January 21, 2020. Diluted earnings per share is calculated based on the assumption that the stock split was implemented at the beginning of the previous fiscal year.

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

	2020	2019
Net income	214,733	157,560
Financing costs	62	125
Other financial income (expense)	1,477	(545)
Other expense	1,504	3,124
Income taxes	83,455	50,333
Operating profit	**301,230**	**210,597**
Depreciation of property, plant and equipment	21,966	17,778
Depreciation of right-of-use assets	5,509	6,031
Amortization of intangible assets	2,901	2,592
Impairment of property, plant and equipment	296	1,252
Impairment of intangible assets	657	2,664
Operating expense for defined benefit plans	4,701	4,369
Operating expense for equity-settled equity compensation plans	325	300
Net (income) expense for provisions	171	287
Inventory write-downs	19	1,053
Other adjustments	2,454	2,577
Cash generated from operations	**340,228**	**249,500**

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

	2020	2019
Interest received	97	106
Dividends received	3	91
Total	**100**	**197**

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 (2019: 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 ¥ 55,982 million (2019: ¥34,528 million).

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

	2020	2019
Revenues	347,583	217,265
Purchases	137,155	145,336

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

	December 31, 2020	December 31, 2019
Accounts receivable	127,475	69,152
Trade accounts payable	47,201	38,006

Transactions and balances with Genentech, Inc. in millions of yen

	December 31, 2020	December 31, 2019
Purchases	50,435	25,715
Trade accounts payable	2,756	2,317

From the fiscal year under review, amounts of transactions with Genentech, Inc. are stated due to the increased significance of purchases.

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

	2020	2019
Board of directors		
− Regular remuneration	258	298
− Bonuses	120	120
− Tenure-based restricted stock compensation	55	86
− Performance-based restricted stock compensation	84	76
Total	**516**	**580**
Audit & supervisory board members		
− Regular remuneration	99	96
Total	**99**	**96**

7) Subsequent events

There were no subsequent events in the fiscal year under review.