CHUGAI PHARMACEUTICAL CO., LTD.

A member of the Roche group

CONSOLIDATED FINANCIAL STATEMENTS (IFRS) (Non-Audited)

(for the first quarter of the fiscal year 2023)

Name of Company: Chugai Pharmaceutical Co., Ltd. April 27, 2023
Stock Listing: Tokyo Stock Exchange
Security Code No.: 4519 (URL https://www.chugai-pharm.co.jp/english)
Representative: Osamu Okuda, President & CEO
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Date of Submission of Quarterly Marketable Securities Filings: April 28, 2023
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 first quarter of FY 2023 (January 1, 2023–March 31, 2023)

(1) Consolidated operating results

	Revenue	% change	Operating profit	% change	Net income	% change
First three months of FY 2023	¥312,240 million	(13.3)	¥98,296 million	(47.4)	¥73,500 million	(44.2)
First three months of FY 2022	¥360,335 million	－	¥187,007 million	192.3	¥131,775 million	177.9

	Net income attributable to Chugai shareholders	% change	Total comprehensive income	% change
First three months of FY 2023	¥73,500 million	(44.2)	¥78,149 million	(38.9)
First three months of FY 2022	¥131,775 million	177.9	¥127,822 million	147.3

	Earnings per share (Basic)	Earnings per share (Diluted)
First three months of FY 2023	¥44.68	¥44.67
First three months of FY 2022	¥80.14	¥80.09

Notes: 1. Percentages represent changes compared with the same period of the previous fiscal year.
2. Starting from FY 2023, Chugai has excluded income from disposal of product rights from revenue. In conjunction with this change, the results for the first three months of FY 2022 have been restated accordingly. Hence, the percentage change compared with the same period of the previous fiscal year is not stated for Revenue for the first three months of FY 2022. There were no changes to operating profit, net income for the first three months of FY 2022, and their respective percentage changes compared with the same period of the previous fiscal year.

(2) Consolidated results (balance sheet)

	Total assets	Total equity	Equity attributable to Chugai shareholders	Ratio of equity attributable to Chugai shareholders
As of March 31, 2023	¥1,771,973 million	¥1,436,923 million	¥1,436,923 million	81.1%
As of Dec. 31, 2022	¥1,869,758 million	¥1,424,387 million	¥1,424,387 million	76.2%

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. 2022	－	¥38.00	－	¥40.00	¥78.00
FY ending Dec. 2023	－				
FY ending Dec. 2023 (Forecast)		¥40.00	－	¥40.00	¥80.00

Note: Whether the most recent dividend forecast has been revised: No

3. Consolidated forecasts on Core basis for FY 2023 (January 1, 2023–December 31, 2023)

	Core revenue	% change	Core operating profit	% change	Core net income	% change
First three months of FY 2023 (Results)	¥312,240 million	+29.2	¥105,363 million	+25.4	¥78,412 million	+25.6
FY ending Dec. 2023 (Forecast)	¥1,070,000 million	(8.4)	¥415,000 million	(8.1)	¥306,000 million	(3.7)

	Core earnings per share	% change	Core dividend payout ratio %
First three months of FY 2023 (Results)	¥47.66	+25.6	－
FY ending Dec. 2023 (Forecast)	¥186.00	(3.7)	43.0

Notes: 1. Except for Core dividend payout ratio, percentages represent changes compared with the same period of the previous fiscal year for the forecasts, and the percentage of forecast levels that have been achieved to date for the results.

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. 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 Mar. 31, 2023	1,679,057,667	As of Dec. 31, 2022	1,679,057,667
(b) Number of treasury stock at the end of the period	As of Mar. 31, 2023	33,925,348	As of Dec. 31, 2022	34,037,098
(c) Average number of shares issued during the period (three months)	First three months of FY 2023	1,645,068,664	First three months of FY 2022	1,644,365,731

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 attachment.
(4) Chugai is scheduled to hold a presentation of the financial statements 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 presentation.
Presentation for institutional investors, securities analysts and the media (Online conference) (Japanese only): April 27, 2023, Thursday (Japan time).
The English translation of the presentation materials will be posted on the website within two business days.

Index of the Attachment

1. Qualitative Information

(1) Consolidated operating results in billions of yen

	First three months of FY 2023.12 (Jan. 1, 2023–Mar. 31, 2023)	First three months of FY 2022.12 (Jan. 1, 2022–Mar. 31, 2022)	% change
Core results			
Revenue	**312.2**	**268.4**	**+16.3**
Sales	291.5	242.7	+20.1
Other revenue	20.7	25.7	(19.5)
Cost of sales	(151.0)	(114.1)	+32.3
Gross profit	**161.2**	**154.3**	**+4.5**
Research and development	(36.1)	(32.9)	+9.7
Selling, general and administration	(21.0)	(22.7)	(7.5)
Other operating income (expense)	1.3	0.2	+550.0
Operating profit	**105.4**	**98.9**	**+6.6**
Net income	**78.4**	**70.6**	**+11.0**
IFRS results			
Revenue	312.2	360.3	(13.3)
Operating profit	98.3	187.0	(47.4)
Net income	73.5	131.8	(44.2)

Consolidated financial highlights (IFRS results)

Revenue for the three months under review was ¥312.2 billion (a decrease of 13.3% year on year), operating profit for the three months under review was ¥98.3 billion (a decrease of 47.4% year on year), and net income for the three months under review was ¥73.5 billion (a decrease of 44.2% year on year). These results include non-Core items, which are excluded from the Core results that Chugai adopts to manage recurring business activities, such as amortization of intangible assets of ¥0.5 billion, impairment loss of intangible assets of ¥4.7 billion, and restructuring expenses of ¥1.9 billion. Revenue, operating profit, and net income have significantly decreased compared to the same period of the previous fiscal year, due to the one-time impact of recognizing the lump-sum payment of ¥91.9 billion as a result of the settlement agreement between Chugai and Alexion Pharmaceuticals, Inc., in the previous fiscal year.

Consolidated financial highlights (Core results)

Revenue for the three months under review was ¥312.2 billion (an increase of 16.3% year on year), due to a significant increase in sales, despite a decrease in other revenue.

Of revenue, sales were ¥291.5 billion (an increase of 20.1% year on year). Domestic sales grew over the previous fiscal year primarily due to the steady market penetration of the new products such as Polivy and Vabysmo, and the recognition of the supply of Ronapreve to the government, as well as the favorable sales of the mainstay products including Hemlibra and Tecentriq, while sales were affected by the NHI drug price revisions of April 2022 and the market penetration of generic drugs. Overseas sales increased compared to the previous fiscal year due to the increase in the exports of Alecensa and Actemra to Roche. Other revenue was ¥20.7 billion (a decrease of 19.5% year on year) primarily due to the termination of royalty income from initial shipments of Hemlibra, which was recognized in the same period of the previous fiscal year, despite the increase in royalties and profit-sharing income related to the intellectual property rights of Hemlibra. Furthermore, cost to sales ratio was 51.8%, a 4.8 percentage point rise year on year, reflecting the change in the product mix, the impact of foreign exchange and other factors. As a result, gross profit amounted to ¥161.2 billion (an increase of 4.5% year on year).

Research and development expenses amounted to ¥36.1 billion (an increase of 9.7% year on year) due to investments into drug discovery/early development including the operation of Chugai Life Science Park Yokohama, and increases associated with the progress of development projects, etc. Selling, general and administration expenses amounted to ¥21.0 billion (a decrease of 7.5% year on year) due to decreases in various expenses. Other operating income (expense) was income of ¥1.3 billion (¥0.2 billion of income for the same period of the previous fiscal year) due to the recognition of gain on sale of property, plant and equipment, etc. As a result, core operating profit was ¥105.4 billion (an increase of 6.6% year on year) and core net income was ¥78.4 billion (an increase of 11.0% 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. Chugai's recognition of non-recurring items may differ from that of Roche due to the difference in the scale of operations, the scope of business and other factors. 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 for Consolidated Financial Results for Fiscal Year 2023. 12 (IFRS), dated April 27, 2023 on page 1, entitled "Reconciliation of IFRS results to Core results."

*Presentational changes to consolidated operating results
As of January 1, 2023, the Group adopted the presentational changes to the consolidated operating results. For the three months under review, comparative information for the three months ended March 31, 2022 is also presented reflecting these changes. These changes have no effect on the items from operating profit through net income, earnings per share and the concept of the Core basis.
For further details, please refer to "d. Presentational Changes" of "1) General accounting principles and significant account policies" on page 13.

Sales breakdown in billions of yen

	First three months of FY 2023.12 (Jan. 1, 2023–Mar. 31, 2023)	First three months of FY 2022.12 (Jan. 1, 2022–Mar. 31, 2022)	% change
Sales	**291.5**	**242.7**	**+20.1**
Domestic sales	**192.7**	**161.7**	**+19.2**
Oncology	60.0	58.4	+2.7
Specialty	132.7	103.2	+28.6
Overseas sales	**98.8**	**81.0**	**+22.0**

Domestic sales
Domestic sales were ¥192.7 billion (an increase of 19.2% year on year) due to the favorable market penetration of new products and mainstay products, while sales were affected by the NHI drug price revisions of April 2022 and the market penetration of generic drugs.

Oncology products sales were ¥60.0 billion (an increase of 2.7% year on year). Sales of the new product Polivy (an antimicrotubule binding anti-CD79b monoclonal antibody, anti-cancer agent) and the mainstay product Tecentriq (an anti-PD-L1 humanized monoclonal antibody, anti-cancer agent) were strong, despite the decline in sales 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 market penetration of generic drugs and the NHI drug price revisions.

Specialty products sales were ¥132.7 billion (an increase of 28.6% year on year). Despite a sales decline of products including Edirol (an osteoporosis agent) and Mircera (a long-acting erythropoiesis stimulating agent) due to NHI drug price revisions and market penetration of generic drugs, the favorable market penetration of new products Vabysmo (an ophthalmic VEGF/Ang-2 inhibitor, anti-VEGF/anti-Ang-2 humanized bispecific monoclonal antibody), and Evrysdi (a spinal muscular atrophy agent), as well as the supply of Ronapreve (an anti-SARS-CoV-2 monoclonal antibody) to the government contributed to sales. In addition, sales of the mainstay product Hemlibra (a blood coagulation factor VIII substitute/anti-coagulation factor IXa/X humanized bispecific monoclonal antibody) and Enspryng (a pH-dependent binding humanized anti-IL-6 receptor monoclonal antibody) continued to be strong.

Overseas sales

Overseas sales amounted to ¥98.8 billion (an increase of 22.0% year on year). The export of Alecensa (an ALK inhibitor, anti-cancer agent) to Roche significantly increased compared to the previous fiscal year, and the export of Actemra (a humanized anti-human IL-6 receptor monoclonal antibody) to Roche was also strong.

R&D activities

R&D expenses on a Core basis for the first three months under review totaled ¥36.1 billion (an increase of 9.7% year on year), and the ratio of R&D expenses to revenue was 11.6%.

Progress made in R&D activities during the period from January 1, 2023 to March 31, 2023 was as follows.

Oncology

- We filed for a humanized anti-human IL-6 receptor monoclonal antibody MRA/RG1569 (Product name: Actemra) for the treatment of cytokine release syndrome induced by cancer treatment in February 2023.
- We started Phase I study for ALPS12/RG6524 for the treatment of solid tumors in January 2023.
- We decided to discontinue the development of an engineered anti-PD-L1 monoclonal antibody RG7446 (Product name: Tecentriq) for NSCLC (2nd Line) (combination with cabozantinib) and urothelial carcinoma (1st Line) in consideration of the results of global Phase III studies CONTACT-01 and IMvigor130, respectively.
- We decided to discontinue the development of an AKT inhibitor RG7440 for prostate cancer (1st Line) (combination with abiraterone) in consideration of the results of global Phase III study IPATential150.

Immunology

- We started Phase III study for a glycoengineered type II anti-CD20 monoclonal antibody RG7159 (Product name: Gazyva) for the treatment of pediatric nephrotic syndrome in March 2023.
- We started Phase I study for an anti-C5 recycling antibody SKY59/RG6107 for the treatment of lupus nephritis in February 2023.

Neuroscience

- We changed the development stage of an antisense oligonucleotide targeting *HTT* mRNA RG6042 to Phase II following the initiation of a global Phase II study for Huntington's disease by Roche in January 2023.
- We started Phase II study for an anti-latent myostatin sweeping antibody GYM329/RG6237 for the treatment of facioscapulohumeral muscular dystrophy (FSHD) in March 2023.
- We decided to discontinue the development of an anti-amyloid-beta human monoclonal antibody RG1450 for Alzheimer’s disease in consideration of the results of global Phase III studies GRADUATE1/2.

Hematology

- The European Commission approved the anti-factor IXa/X bispecific antibody ACE910/RG6013 (Product name: Hemlibra) to include the moderate disease with a severe bleeding phenotype in January 2023.

Ophthalmology

- We started domestic Phase III study for an anti-VEGF/Anti-Ang-2 bispecific antibody RG7716 (Product name: Vabysmo) for the treatment of angioid streaks in March 2023.

(2) Consolidated financial position

Assets, liabilities and net assets in billions of yen

	March 31, 2023	December 31, 2022	Change in amount
Net operating assets (NOA) and Net assets			
Net working capital	414.2	551.6	(137.4)
Long-term net operating assets	461.5	447.8	13.7
Net operating assets (NOA)	**875.8**	**999.3**	**(123.5)**
Net cash	554.6	503.1	51.5
Other non-operating assets – net	6.5	(78.1)	84.6
Total net assets	**1,436.9**	**1,424.4**	**12.5**
Consolidated balance sheet (IFRS basis)			
Total assets	1,772.0	1,869.8	(97.8)
Total liabilities	(335.1)	(445.4)	110.3
Total net assets	1,436.9	1,424.4	12.5

Net operating assets (NOA) at March 31, 2023 were ¥875.8 billion, a decrease of ¥123.5 billion since the end of the previous fiscal year. Of NOA, net working capital was ¥414.2 billion, a decrease of ¥137.4 billion from the end of the previous fiscal year, due mainly to a decrease in accounts receivable from the sales of Ronapreve and others. Long-term net operating assets increased by ¥13.7 billion to ¥461.5 billion since the end of the previous fiscal year, mainly due to the investments in the manufacturing building for active pharmaceutical ingredients (APIs) (FJ3) in the Fujieda Plant, etc.

As indicated in “Cash flows” on the next page, net cash, including marketable securities and interest-bearing debt, increased by ¥51.5 billion since the end of the previous fiscal year to ¥554.6 billion. Other non-operating assets – net increased by ¥84.6 billion since the end of the previous fiscal year to ¥6.5 billion due mainly to a decrease in current income tax liabilities.

As a consequence, total net assets were ¥1,436.9 billion (an increase of ¥12.5 billion since the end of the previous fiscal year).

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

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

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

Cash flows in billions of yen

	First three months of FY 2023.12 (Jan. 1, 2023–Mar. 31, 2023)	First three months of FY 2022.12 (Jan. 1, 2022–Mar. 31, 2022)	% change
Free cash flows			
Operating profit - IFRS basis	98.3	187.0	(47.4)
Operating profit, net of operating cash adjustments	126.8	197.9	(35.9)
Operating free cash flows	221.8	126.2	+75.8
Free cash flows	**115.2**	**33.9**	**+239.8**
Net change in net cash	51.5	(40.2)	−
Consolidated statement of cash flows (IFRS basis)			
Cash flows from operating activities	127.7	72.5	+76.1
Cash flows from investing activities	(35.4)	(34.0)	+4.1
Cash flows from financing activities	(67.3)	(76.9)	(12.5)
Net change in cash and cash equivalents	25.5	(37.3)	−
Cash and cash equivalents at March 31	247.7	230.5	+7.5

Operating profit, net of operating cash adjustments, amounted to ¥126.8 billion (a decrease of 35.9% year on year), which was calculated by adjusting for depreciation and other items that are included in operating profit but are not accompanied by cash inflows or outflows and all inflows and outflows related to NOA that are not accompanied by profit and loss.

Operating free cash flows for the three months under review amounted to a net inflow of ¥221.8 billion (an increase of 75.8% year on year) mainly due to a decrease in net working capital, etc. of ¥124.2 billion, despite expenditures of ¥27.2 billion for the purchase of property, plant and equipment, etc. Factors accounting for the decrease 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 ¥115.2 billion (an increase of 239.8% year on year) due mainly to income taxes paid of ¥95.6 billion from operating free cash flows.

The net change in net cash calculated by adjusting for dividends paid of ¥65.4 billion, etc. from free cash flows was an increase of ¥51.5 billion.

The net change in cash and cash equivalents, excluding changes in marketable securities and interest-bearing debt, was a net cash inflow of ¥25.5 billion. The cash and cash equivalents balance at the end of this period amounted to ¥247.7 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.”

*Presentational changes to the consolidated statement of cash flows
As of January 1, 2023, the Group adopted the presentational changes in which “royalties and other operating income” and “other revenue” in revenue have been changed to “other revenue,” while income from disposal of product rights has been excluded therefrom. In conjunction with this change, cash flows associated with income from disposal of product rights, which had previously been presented under the category of “cash flows from operating activities” have been presented under the category of “cash flows from investing activities.”

For further details, please refer to “d. Changes in the method of presentation” of “1) General accounting principles and significant account policies” on page 13.

(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, 2023 since the announcement regarding the forecast issued on February 2, 2023.

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 three months ended March 31	
	2023	2022
Revenue	**312,240**	**360,335**
Sales	291,531	242,716
Other revenue	20,709	117,619
Cost of sales	(151,329)	(114,424)
Gross profit	**160,911**	**245,911**
Research and development	(42,867)	(33,866)
Selling, general and administration	(21,016)	(22,787)
Other operating income (expense)	1,268	(2,250)
Operating profit	**98,296**	**187,007**
Financing costs	(2)	(14)
Other financial income (expense)	1,368	1,614
Other expense	—	(2,401)
Profit before taxes	**99,662**	**186,206**
Income taxes	(26,161)	(54,431)
Net income	**73,500**	**131,775**
Attributable to:		
Chugai shareholders	73,500	131,775
Earnings per share		
Basic (yen)	44.68	80.14
Diluted (yen)	44.67	80.09

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

	First three months ended March 31	
	2023	2022
Net income recognized in income statement	**73,500**	**131,775**
Other comprehensive income		
Financial assets measured at fair value through OCI	(142)	(5)
Items that will never be reclassified to the income statement	**(142)**	**(5)**
Financial assets measured at fair value through OCI	5	(4)
Cash flow hedges	3,516	(6,889)
Currency translation of foreign operations	1,269	2,945
Items that are or may be reclassified to the income statement	**4,790**	**(3,948)**
Other comprehensive income, net of tax	**4,648**	**(3,953)**
Total comprehensive income	**78,149**	**127,822**
Attributable to:		
Chugai shareholders	78,149	127,822

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

	March 31, 2023	December 31, 2022
Assets		
Non-current assets:		
Property, plant and equipment	389,051	375,340
Right-of-use assets	10,726	11,311
Intangible assets	19,692	25,141
Deferred tax assets	63,993	65,244
Defined benefit plan assets	5,039	5,172
Other non-current assets	56,485	51,013
Total non-current assets	**544,986**	**533,221**
Current assets:		
Inventories	278,859	292,206
Accounts receivable	360,987	512,538
Current income tax assets	1,555	1,745
Marketable securities	306,928	280,938
Cash and cash equivalents	247,686	222,169
Other current assets	30,971	26,941
Total current assets	**1,226,987**	**1,336,537**
Total assets	**1,771,973**	**1,869,758**
Liabilities		
Non-current liabilities:		
Deferred tax liabilities	(6,366)	(7,086)
Defined benefit plan liabilities	(2,993)	(3,311)
Long-term provisions	(2,382)	(2,756)
Other non-current liabilities	(8,159)	(8,489)
Total non-current liabilities	**(19,899)**	**(21,641)**
Current liabilities:		
Current income tax liabilities	(29,831)	(98,543)
Short-term provisions	(1,398)	(1,980)
Accounts payable	(166,171)	(209,835)
Other current liabilities	(117,751)	(113,372)
Total current liabilities	**(315,151)**	**(423,730)**
Total liabilities	**(335,051)**	**(445,372)**
Total net assets	**1,436,923**	**1,424,387**
Equity:		
Capital and reserves attributable to Chugai shareholders	1,436,923	1,424,387
Total equity	**1,436,923**	**1,424,387**
Total liabilities and equity	**1,771,973**	**1,869,758**

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

	First three months ended March 31	
	2023	2022
Cash flows from operating activities		
Cash generated from operations	112,280	199,662
(Increase) decrease in working capital	124,194	(33,158)
Payments made for defined benefit plans	(990)	(760)
Utilization of provisions	(1,066)	(664)
Other operating cash flows	(11,074)	(7,055)
Cash flows from operating activities, before income taxes paid	**223,343**	**158,025**
Income taxes paid	(95,596)	(85,484)
Total cash flows from operating activities	**127,748**	**72,541**
Cash flows from investing activities		
Purchase of property, plant and equipment	(27,189)	(34,119)
Purchase of intangible assets	–	(2,615)
Disposal of property, plant and equipment	1,696	(54)
Disposal of intangible assets	14,751	–
Interest and dividends received	123	74
Purchases of marketable securities	(166,448)	(120,000)
Sales of marketable securities	141,564	122,768
Purchases of investment securities	(209)	(36)
Sales of investment securities	340	1
Total cash flows from investing activities	**(35,371)**	**(33,982)**
Cash flows from financing activities		
Interest paid	(16)	(14)
Lease liabilities paid	(2,020)	(1,840)
Dividends paid to Chugai shareholders	(65,366)	(75,160)
Exercise of equity compensation plans	121	147
(Increase) decrease in own equity instruments	(1)	(1)
Total cash flows from financing activities	**(67,281)**	**(76,869)**
Net effect of currency translation on cash and cash equivalents	422	1,031
Increase (decrease) in cash and cash equivalents	**25,517**	**(37,279)**
Cash and cash equivalents at January 1	222,169	267,753
Cash and cash equivalents at March 31	**247,686**	**230,474**

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

For the first three months ended March 31, 2022 (Jan. 1, 2022–Mar. 31, 2022)

	Attributable to Chugai shareholders					
	Share capital	Capital surplus	Retained earnings	Other reserves	Subtotal	Total equity
At January 1, 2022	**73,202**	**68,223**	**1,054,050**	**(7,457)**	**1,188,017**	**1,188,017**
Net income	−	−	131,775	−	131,775	131,775
Financial assets measured at fair value through OCI	−	−	−	(9)	(9)	(9)
Cash flow hedges	−	−	−	(6,889)	(6,889)	(6,889)
Currency translation of foreign operations	−	−	−	2,945	2,945	2,945
Total comprehensive income	**−**	**−**	**131,775**	**(3,953)**	**127,822**	**127,822**
Dividends	−	−	(75,639)	−	(75,639)	(75,639)
Equity compensation plans	−	(134)	−	−	(134)	(134)
Own equity instruments	−	444	−	−	444	444
Transfer from other reserves to retained earnings	−	−	0	(0)	−	−
At March 31, 2022	**73,202**	**68,533**	**1,110,186**	**(11,411)**	**1,240,510**	**1,240,510**

For the first three months ended March 31, 2023 (Jan. 1, 2023–Mar. 31, 2023)

	Attributable to Chugai shareholders					
	Share capital	Capital surplus	Retained earnings	Other reserves	Subtotal	Total equity
At January 1, 2023	**73,202**	**68,806**	**1,293,352**	**(10,973)**	**1,424,387**	**1,424,387**
Net income	−	−	73,500	−	73,500	73,500
Financial assets measured at fair value through OCI	−	−	−	(136)	(136)	(136)
Cash flow hedges	−	−	−	3,516	3,516	3,516
Currency translation of foreign operations	−	−	−	1,269	1,269	1,269
Total comprehensive income	**−**	**−**	**73,500**	**4,648**	**78,149**	**78,149**
Dividends	−	−	(65,801)	−	(65,801)	(65,801)
Equity compensation plans	−	5	−	−	5	5
Own equity instruments	−	182	−	−	182	182
Transfer from other reserves to retained earnings	−	−	(320)	320	−	−
At March 31, 2023	**73,202**	**68,993**	**1,300,732**	**(6,005)**	**1,436,923**	**1,436,923**

(5) Notes regarding the going concern assumption

None

(6) Notes regarding the interim condensed 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 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 April 27, 2023.

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% (61.13% 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, 2022 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 revenue, 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 Condensed Financial Statements of the Group is principally the same for the prior fiscal year.

However, should the situation persist, it could result in such risks as major revisions of the carrying amounts of assets and liabilities in the following fiscal year and beyond.

c. Significant accounting policies

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

d. Presentational Changes

As of January 1, 2023, the Group adopted the presentational changes to the consolidated financial statements as follows.

For the three months under review, the comparative information for the three months ended March 31, 2022 and as at December 31, 2022 is also presented reflecting these changes.

Changes in the method of presentation of the interim condensed consolidated income statement and the interim condensed consolidated statement of cash flows

As of January 1, 2023, the Group adopted the following presentational changes to the interim condensed consolidated income statement.

These changes have no effect on the items from operating profit through net income, earnings per share and the concept of the Core basis.

(a) "Royalties and other operating income" and "other revenue", which had previously been reported under revenue have been changed to "other revenue", while income from disposal of product rights has been excluded therefrom.
As a result, in the interim condensed consolidated income statement for the three months ended March 31, 2022, "other revenue" decreased by ¥220 million.
In conjunction with this change, cash flows associated with income from disposal of product rights, which had previously been classified as "cash flows from operating activities" have been classified as "cash flows from investing activities."
The change had no effect on the interim condensed consolidated statement of cash flows for the three months ended March 31, 2022.

(b) "Other revenue" includes royalty income, profit-sharing income, other operating income, and other revenue which included a lump-sum income associated with a settlement agreement concluded between Chugai and Alexion Pharmaceuticals, Inc. in 2022.

(c) "Other operating income (expense)," a new category on the same level as research and development expenses, marketing and distribution expenses, and general and administration expenses has been added. "Other operating income (expense)" includes income from disposal of product rights, which will be excluded from revenue as described above, as well as revenues and expenses associated with operating activities that have previously been included and presented under general and administration expenses, such as gain (loss) on sale of land and buildings, etc., which could not be classified in any of the functional expense categories.

(d) Marketing and distribution expenses and general and administration expenses have been combined and presented as "selling, general and administration expenses".

Changes in the method of presentation of the interim condensed consolidated balance sheet

As of January 1, 2023, "financial non-current assets" are included in "Other non-current assets," due to their diminished materiality.
As a result, in the interim condensed consolidated balance sheet as at December 31, 2022, ¥1,837 million of "financial non-current assets" and ¥49,176 million of "other non-current assets" are restated as ¥51,013 million of "other non-current assets".

2) Subsequent events

(Transfer of Marketing Authorizations Including Marketing and Manufacturing Rights)

With regard to Bonviva which Chugai had in-licensed from Roche and had been the marketing authorization holder in Japan, the business transfer in Japan to Taisho Pharmaceutical Co., Ltd., was completed with the transfer of marketing authorization on April 3, 2023.

a. Purpose of the transfer

Chugai strives to develop hand-in-hand with society by solving social issues through its business activities. The decision to transfer the product was taken to reinforce Chugai's focus on creating innovation under RED* Shift. The transfer of the product enables Chugai to invest the resources in business segments and products for innovative drug discovery, ensuring the sustainable growth of the Group in the future.

*RED : Research & Early Development

b. Name of the transferee

Taisho Pharmaceutical Co., Ltd.

c. Details of the assets subject to transfer

Marketing authorizations, including marketing and manufacturing rights, of Bonviva

d. Transfer timetable

Date of transfer agreement:	November 24, 2022
Date of execution of asset transfer:	January 16, 2023
Date of transfer of marketing authorization:	Apr 3, 2023

e. Transfer price

The agreement prevents Chugai from disclosing the amount it has received.

(Implementation of Early Retirement Incentive Program)

a. Reasons for the implementation

In the fiscal year ending December 31, 2022, Chugai achieved record-high revenues and operating profit for the sixth consecutive year. Meanwhile, the difficulty of new drug development is increasing, healthcare financing pressure is rising globally, and measures to curb healthcare and drug costs are accelerating. The business environment is becoming more challenging as responses to customers are changing significantly due to the growing market penetration of generic drugs and biosimilars and the impact of the new coronavirus on the work style of the workforce. Furthermore, with the addition of advances in digital technology, it is expected to become challenging to maintain a competitive advantage based solely on the expertise and technology that have been our strengths to date. To respond swiftly to the drastically changing business environment and our management issues, we must strengthen our organizational capability and human resources for structural reform and further evolution toward strategic resource allocation.

At the same time, as the mindset of employment and lifestyles diversify, there is a growing trend toward seeking a second life or next career. In the midst of what is so called the era of a 100-year lifespan, an increasing number of employees are considering changing careers based on their own life plans. Against this backdrop, we implemented the Early Retirement Incentive Program to address management issues in a drastically changing business environment and support employees considering a second career by retiring early due to diversifying views on employment and lifestyles.

b. Details of the Program

(1) Eligible employees:	Employees aged 40 or over as of December 31, 2023 (Detailed criteria are specified separately)
(2) Target number of applicants:	Unspecified
(3) Incentives:	(a) Special additional allowance on top of regular retirement allowance (b) Reemployment support services through an external outplacing company to retirees in this program upon request
(4) Application period:	From April 3 to April 21, 2023
(5) Retirement date:	June 30, 2023

c. Result of the offer

Number of applicants: 374 employees

d. Impact of financial performance

Special additional allowance and other expenses related to this program of approximately 10.4 billion yen will be reported in the interim condensed consolidated income statement for the second quarter of the fiscal year ending December 31, 2023. This impact will be reported as Non-Core item.