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CHUGAI

A member of the Roche group

Chugai Finance Report

(An Excerpt of Securities Report 2022)

Fiscal year ended December 31, 2022

CHUGAI PHARMACEUTICAL CO., LTD.

Consolidated Financial Statements

1. Consolidated income statement and consolidated statement of comprehensive income

(1) Consolidated income statement in millions of yen

	Year ended December 31	
	2022	2021
Revenues	**1,259,946**	**999,759**
Sales (Notes 2 and 3)	1,039,247	802,836
Royalties and other operating income (Notes 2 and 3)	128,784	196,922
Other revenue (Notes 2 and 3)	91,915	-
Cost of sales	(476,251)	(338,147)
Gross profit	**783,695**	**661,612**
Marketing and distribution	(77,149)	(76,592)
Research and development	(149,626)	(137,299)
General and administration	(23,611)	(25,824)
Operating profit	**533,309**	**421,897**
Financing costs (Note 4)	(61)	(48)
Other financial income (expense) (Note 4)	52	76
Other expense (Note 5)	(2,134)	(2,540)
Profit before taxes	**531,166**	**419,385**
Income taxes (Note 6)	(156,737)	(116,390)
Net income	**374,429**	**302,995**
Attributable to:		
Chugai shareholders (Note 21)	374,429	302,995
Earnings per share (Note 25)		
Basic (yen)	227.64	184.29
Diluted (yen)	227.57	184.17

(2) Consolidated statement of comprehensive income in millions of yen

	Year ended December 31	
	2022	2021
Net income recognized in income statement	**374,429**	**302,995**
Other comprehensive income		
Remeasurements of defined benefit plans (Notes 6 and 21)	3,021	583
Financial assets measured at fair value through OCI (Notes 6 and 21)	(282)	(291)
Items that will never be reclassified to the income statement	**2,739**	**292**
Financial assets measured at fair value through OCI (Notes 6 and 21)	(13)	3
Cash flow hedges (Notes 6 and 21)	(8,759)	(292)
Currency translation of foreign operations (Notes 6 and 21)	5,540	3,022
Items that are or may be reclassified to the income statement	**(3,233)**	**2,733**
Other comprehensive income, net of tax (Note 6)	**(494)**	**3,025**
Total comprehensive income	**373,935**	**306,020**
Attributable to:		
Chugai shareholders (Note 21)	373,935	306,020

2. **Consolidated balance sheet** in millions of yen

	December 31, 2022	December 31, 2021
Assets		
Non-current assets:		
Property, plant and equipment (Note 7)	375,340	338,841
Right-of-use assets (Note 8)	11,311	13,266
Intangible assets (Note 9)	25,141	21,974
Financial non-current assets (Note 10)	1,837	2,393
Deferred tax assets (Note 6)	65,244	56,287
Defined benefit plan assets (Note 23)	5,172	1,327
Other non-current assets (Note 11)	49,176	40,944
Total non-current assets	**533,221**	**475,033**
Current assets:		
Inventories (Note 12)	292,206	208,838
Accounts receivable (Note 13)	512,538	355,081
Current income tax assets (Note 6)	1,745	928
Marketable securities (Note 14)	280,938	204,217
Cash and cash equivalents (Note 15)	222,169	267,753
Other current assets (Note 16)	26,941	26,844
Total current assets	**1,336,537**	**1,063,661**
Total assets	**1,869,758**	**1,538,694**
Liabilities		
Non-current liabilities:		
Deferred tax liabilities (Note 6)	(7,086)	(7,614)
Defined benefit plan liabilities (Note 23)	(3,311)	(2,945)
Long-term provisions (Note 17)	(2,756)	(2,101)
Other non-current liabilities (Note 18)	(8,489)	(10,595)
Total non-current liabilities	**(21,641)**	**(23,255)**
Current liabilities:		
Current income tax liabilities (Note 6)	(98,543)	(86,312)
Short-term provisions (Note 17)	(1,980)	(2,695)
Accounts payable (Note 19)	(209,835)	(152,266)
Other current liabilities (Note 20)	(113,372)	(86,149)
Total current liabilities	**(423,730)**	**(327,422)**
Total liabilities	**(445,372)**	**(350,677)**
Total net assets	**1,424,387**	**1,188,017**
Equity:		
Capital and reserves attributable to Chugai shareholders (Note 21)	1,424,387	1,188,017
Total equity	**1,424,387**	**1,188,017**
Total liabilities and equity	**1,869,758**	**1,538,694**

3. **Consolidated statement of cash flows** in millions of yen

	Year ended December 31 2022	2021
Cash flows from operating activities		
Cash generated from operations (Note 26)	575,875	470,367
(Increase) decrease in working capital	(183,311)	(83,122)
Payments made for defined benefit plans	(3,739)	(3,665)
Utilization of provisions	(1,634)	(656)
Other operating cash flows	9,004	776
Cash flows from operating activities, before income taxes paid	**396,194**	**383,700**
Income taxes paid	(152,082)	(104,074)
Total cash flows from operating activities	**244,112**	**279,626**
Cash flows from investing activities		
Purchase of property, plant and equipment	(62,625)	(65,969)
Purchase of intangible assets	(8,614)	(6,897)
Disposal of property, plant and equipment	1,048	1,042
Interest and dividends received (Note 26)	281	133
Purchases of marketable securities	(518,681)	(362,761)
Sales of marketable securities	442,768	325,000
Purchases of investment securities	(321)	(9,503)
Sales of investment securities	151	28
Total cash flows from investing activities	**(145,994)**	**(118,927)**
Cash flows from financing activities		
Interest paid	(58)	(48)
Lease liabilities paid	(7,599)	(9,031)
Dividends paid to Chugai shareholders	(138,220)	(98,644)
Exercises as part of equity compensation plans (Note 24)	241	322
(Increase) decrease in own equity instruments	(5)	(8)
Total cash flows from financing activities	**(145,641)**	**(107,408)**
Net effect of currency translation on cash and cash equivalents	1,939	2,128
Increase (decrease) in cash and cash equivalents	**(45,584)**	**55,419**
Cash and cash equivalents at January 1	267,753	212,333
Cash and cash equivalents at December 31 (Note 15)	**222,169**	**267,753**

4. Consolidated statement of changes in equity in millions of yen

	Attributable to Chugai shareholders					
	Share capital	Capital surplus	Retained earnings	Other reserves	Subtotal	Total equity
Year ended December 31, 2021						
At January 1, 2021	**73,202**	**67,586**	**849,093**	**(9,879)**	**980,003**	**980,003**
Net income	-	-	302,995	-	302,995	302,995
Financial assets measured at fair value through OCI (Notes 6 and 21)	-	-	-	(288)	(288)	(288)
Cash flow hedges (Notes 6 and 21)	-	-	-	(292)	(292)	(292)
Currency translation of foreign operations (Notes 6, 21)	-	-	-	3,022	3,022	3,022
Remeasurements of defined benefit plans (Notes 6 and 21)	-	-	583	-	583	583
Total comprehensive income	-	-	**303,578**	**2,442**	**306,020**	**306,020**
Dividends (Note 21)	-	-	(98,642)	-	(98,642)	(98,642)
Equity compensation plans (Note 21)	-	(27)	-	-	(27)	(27)
Own equity instruments (Note 21)	-	664	-	-	664	664
Transfer from other reserves to retained earnings	-	-	21	(21)	-	-
At December 31, 2021	**73,202**	**68,223**	**1,054,050**	**(7,457)**	**1,188,017**	**1,188,017**
Year ended December 31, 2022						
At January 1, 2022	**73,202**	**68,223**	**1,054,050**	**(7,457)**	**1,188,017**	**1,188,017**
Net income	-	-	374,429	-	374,429	374,429
Financial assets measured at fair value through OCI (Notes 6 and 21)	-	-	-	(296)	(296)	(296)
Cash flow hedges (Notes 6 and 21)	-	-	-	(8,759)	(8,759)	(8,759)
Currency translation of foreign operations (Notes 6, 21)	-	-	-	5,540	5,540	5,540
Remeasurements of defined benefit plans (Notes 6 and 21)	-	-	3,021	-	3,021	3,021
Total comprehensive income	-	-	**377,450**	**(3,515)**	**373,935**	**373,935**
Dividends (Note 21)	-	-	(138,148)	-	(138,148)	(138,148)
Equity compensation plans (Note 21)	-	(379)	-	-	(379)	(379)
Own equity instruments (Note 21)	-	961	-	-	961	961
Transfer from other reserves to retained earnings	-	-	0	(0)	-	-
At December 31, 2022	**73,202**	**68,806**	**1,293,352**	**(10,973)**	**1,424,387**	**1,424,387**

Notes to Consolidated Financial Statements

1. General accounting principles and significant accounting policies

(1) Basis of preparation of the consolidated financial statements
These financial statements are the annual consolidated financial statements of Chugai Pharmaceutical Co., Ltd., ("Chugai") a company registered in Japan, and its subsidiaries ("the Group"). The common stock of Chugai is publicly traded and is listed on the Tokyo Stock Exchange under the stock code "TSE: 4519". The consolidated financial statements were approved by Osamu Okuda, Representative Director, President & CEO, and Toshiaki Itagaki, Director, Executive Vice President & CFO on March 30, 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 International Financial Reporting Standards ("IFRS"). The shareholding percentage of Roche Holding Ltd. in Chugai is 59.89% (61.13% of the total number of shares issued excluding own equity instruments). The Group became a principal member 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 "Regulations Concerning Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (Ministry of Finance of Japan Regulation No. 28, 1976). Hence, in accordance with Article 93 of the Regulation, 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. As a result, the totals shown in the consolidated financial statements do not necessarily agree with the sum of the individual amounts. They have been prepared using the historical cost convention except for items that are required to be accounted for at fair value.

(2) 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 when the estimate is revised.

The judgments, estimates, and assumptions that have a material impact on the amounts recognized in the consolidated financial statements of the Group are principally the same as the prior year. There is no material impact from the situation in Ukraine and the depreciation of yen. 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 year and beyond.

The following are considered to be the key accounting judgments, estimates and assumptions made in the preparation of the consolidated financial statements and are believed to be appropriate based upon currently available information.

Revenue.
Sales are recorded net of allowances for rebates, cash discounts and product returns. The estimates of rebates payable are recorded as current liabilities. The Group makes accruals for expected sales rebates based on analyses of existing contractual or legislatively-mandated obligations, historical trends and the Group's experience. As these deductions are based on management estimates, they may be subject to change as better information becomes available. Such changes that arise could impact the accruals recognized in the balance sheet in future periods and consequently the level of sales recognized in the income statement in future periods. Variable consideration is only recognized when it is highly probable that there will be no significant reversal.

Out-licensing agreements may be entered into with no further obligation or may include commitments to conduct research, late-stage development, regulatory approval, co-marketing or manufacturing. These may be settled by a combination of upfront payments, milestone payments, and reimbursements for services provided. Whether to consider these commitments as a single performance obligation or separate ones, or even being in scope of IFRS 15 'Revenues from Contracts with Customers', is not straightforward and requires some judgment. Depending on the conclusion, this may result in all revenue being calculated at inception and either being recognized at once or spread over the term of a longer performance obligation. The consideration received may include a variable amount. The Group recognizes variable consideration only when it is highly probable that there will be no significant reversal.

As a practical expedient, the Group does not adjust the promised amount of consideration for the effects of a significant financing component, if the group expects, at contract inception, that the period between when the group transfers a promised good or service to a customer and when the customer pays for that good or service will be one year or less.

Impairment. Intangible assets not yet available for use are reviewed annually for impairment. Property, plant and equipment, right-of-use assets and intangible assets in use are assessed for impairment when there is a triggering event that provides evidence that an asset may be impaired. To assess whether any impairment exists estimates of expected future cash flows are used. Actual outcomes could vary significantly from such estimates of discounted future cash flows. Factors such as changes in discount rates, the planned use of buildings, machinery or equipment, closure of facilities, the presence or absence of competition, technical obsolescence and lower than anticipated product sales could lead to shorter useful lives or impairment.

Post-employment benefits. The Group operates a number of defined benefit plans and the fair values of the recognized plan assets and liabilities are based upon statistical and actuarial calculations. Key estimates are required for the measurement of the net defined benefit obligation, which is particularly sensitive to changes in the discount rate and expected mortality. The actuarial assumptions used for those estimates may differ materially from actual results due to changes in market and economic conditions, longer or shorter life spans of participants, and other changes in the factors being assessed. These differences could impact on the defined benefit plan assets or liabilities recognized in the balance sheet in future periods.

Legal. The Group provides for anticipated legal settlement costs when there is a probable outflow of resources that can be reliably estimated. Where no reliable estimate can be made, no provision is recorded and contingent liabilities are disclosed where material. The status of significant legal cases is included as Additional Information. These estimates consider the specific circumstances of each legal case and relevant legal advice, and are inherently uncertain due to the highly complex nature of legal cases. The estimates could change substantially over time as new facts emerge and each legal case progresses.

Environmental. The Group provides for anticipated environmental remediation costs when there is a probable outflow of resources that can be reasonably estimated. Environmental provisions consist primarily of costs to fully clean and refurbish contaminated sites, including landfills, and to treat and contain contamination at certain other sites. These estimates are inherently judgmental due to uncertainties related to the detection of previously unknown contaminated sites, the method and extent of remediation, the percentage of the problematic materials attributable to the Group at the remediation sites, and the financial capabilities of the other potentially responsible parties. The estimates could change substantially over time as new facts emerge and each environmental remediation progresses.

Income taxes. The uncertainty of estimates significantly affects the measurement of current and deferred tax assets and liabilities. Some of these estimates are based on interpretations of existing tax laws or regulations. Where tax positions are uncertain, accruals are recorded within income tax liabilities for management's best estimate of the ultimate liability that is expected to arise based on the specific circumstances and the Group's historical experience. Factors that may have an impact on the measurement of current and deferred taxes include changes in tax laws, regulations or rates, changing interpretations of existing tax laws or regulations, future levels of research and development spending and changes in pre-tax earnings.

Leases. Where the Group is the lessee, key judgments include assessing whether arrangements contain a lease and determining the lease term. To assess whether a contract contains a lease requires judgment about whether it depends on a specified asset, whether the Group obtains substantially all the economic benefits from the use of that asset, and whether the Group has a right to direct the use of the asset. In order to determine the lease term judgment is required as extension and termination options have to be assessed along with all facts and circumstances that may create an economic incentive to exercise an extension option, or not to exercise a termination option. Estimates include calculating the discount rate which is based on the incremental borrowing rate.

(3) Accounting policies

Consolidation policy

Subsidiaries are all companies over which the Group has control. Chugai controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Companies acquired during the year are consolidated from the date on which control is transferred to the Group, and subsidiaries to be divested are included up to the date on which control passes from the Group.

Inter-company balances, transactions and resulting unrealized income are eliminated in full. Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has already been obtained and if they do not result in a loss of control.

Associates are companies over which the Group exercises, or has the power to exercise, significant influence, but which it does not control and they are accounted for using the equity method.

Foreign currency translation

Most foreign subsidiaries of the Group use their local currency as their functional currency. Certain foreign subsidiaries use other currencies (such as the euro) as their functional currency where this is the currency of the primary economic environment in which the entity operates. Local transactions in other currencies are initially reported using the exchange rate at the date of the transaction. Gains and losses from the settlement of such transactions and gains and losses on translation of monetary assets and liabilities denominated in other currencies are included in income, except when they are qualifying cash flow hedges. In such cases the gains and losses are deferred into other comprehensive income.

Upon consolidation, assets and liabilities of foreign subsidiaries using functional currencies other than Japanese yen are translated into Japanese yen using year-end rates of exchange. The income statement and statement of cash flows are translated at the average rates of exchange for the year. Translation differences due to the changes in exchange rates between the beginning and the end of the year and the difference between net income translated at the average and year-end exchange rates are taken directly to other comprehensive income.

Revenue

Sales. Revenue from the sale of goods supplied is recorded as 'Sales'.

Sales are recognized when a promise in a customer contract (performance obligation) has been satisfied by transferring control over the promised goods to the customer. Control over a promised good refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, those goods. Control is usually transferred upon shipment or delivery to or upon receipt of goods by the customer, in accordance with the delivery and acceptance terms agreed with the customers. The Group generally receives payment from customers within four months from the delivery of goods to the customer. There is no significant financing component. The amount of sales to be recognized (transaction price) is based on the consideration the Group expects to receive in exchange for its goods, excluding amounts collected on behalf of third parties such as consumption tax or other taxes directly linked to sales. The Group recognizes deferred income (contract liability) if consideration has been received (or has become receivable) before the Group transfers the promised goods to the customer.

Royalty and other operating income. 'Royalties and other operating income' includes royalty income, income from out-licensing agreements, income from disposal of products and other items, and income from profit-sharing arrangements with collaboration partners.

Revenue for a sales-based or usage-based royalty promised in exchange for a license of intellectual property is recognized when the subsequent sale or usage occurs.

Income from out-licensing agreements typically arises from the receipt of upfront, milestone and other similar payments from third parties for granting a license to product or technology related intellectual property (IP). Out-licensing agreements may be entered into with no further obligation or may include commitments to conduct research, late-stage development, regulatory approval, co-marketing or manufacturing. Licenses granted are usually rights to use IP and are generally unique. Therefore, the basis of allocating revenue to performance obligations makes use of the residual approach. Upfront payments and other licensing fees are usually recognized upon granting the license unless some of the income shall be deferred for other performance obligations using the residual approach. Such deferred income is released and recognized as revenue when other performance obligations are satisfied. Milestone income is recognized at the point in time when it is highly probable that the respective milestone event criteria is achieved, and the risk of revenue reversal is considered remote. The Group generally receives payment from customers within four months from the time when performance obligations are satisfied. There is no significant financing component.

Payments received for the disposal of product and similar rights are recognized as revenue because the performance obligations are satisfied upon transfer of control over such rights. If there are performance obligations remaining after the disposal, the corresponding portion of transaction price is deferred based on the residual approach and recognized as revenue when the performance obligations are satisfied. The Group generally receives payment from customers within four months from the time when performance obligations are satisfied. There is no significant financing component.

Income from profit-sharing arrangements with collaboration partners is recognized when underlying sales and cost of sales are recorded by the collaboration partners. The Group generally receives payment from customers within four months from the time when performance obligations are satisfied. There is no significant financing component.

Cost of sales
Cost of sales includes the corresponding direct production costs and related production overheads of goods sold and services rendered. Royalties, alliance and collaboration expenses, including all collaboration profit-sharing arrangements are also reported as part of cost of sales. Start-up costs between validation and the achievement of normal production capacity are expensed as incurred.

Research and development
Internal research and development activities are expensed as incurred for the following:
- Internal research costs incurred for the purpose of gaining new scientific or technical knowledge and understanding.
- Internal development costs incurred for the application of research findings or other knowledge to plan and develop new products for commercial production. The development projects undertaken by the Group are subject to technical, regulatory and other uncertainties, such that, in the opinion of management, the criteria for capitalization as intangible assets are not met prior to obtaining marketing approval by the regulatory authorities in major markets.
- Post-marketing studies after regulatory approval, such as phase IV costs in the pharmaceuticals business, generally involve safety surveillance and on-going technical support of a drug after it receives marketing approval to be sold. They may be required by regulatory authorities or may be undertaken for safety or commercial reasons. The costs of such post-marketing studies are not capitalized as intangible assets, as in the opinion of management, they do not generate separately identifiable incremental future economic benefits that can be reliably measured.

Acquired in-process research and development resources obtained through in-licensing arrangements, business combinations or separate asset purchases are capitalized as intangible assets. The acquired asset must be controlled by the Group, be separately identifiable and expected to generate future economic benefits, even if uncertainty exists as to whether the research and development will ultimately result in a marketable product. Consequently, upfront and milestone payments to third parties for pharmaceutical products or compounds before regulatory marketing approval are recognized as intangible assets. Assets acquired through such arrangements are measured on the basis set out in the "Intangible assets" policy. Subsequent internal research and development costs incurred post-acquisition are treated in the same way as other internal research and development costs. If research and development are embedded in contracts for strategic alliances, the Group carefully assesses whether upfront or milestone payments constitute funding of research and development work or acquisition of an asset.

Employee benefits
Short-term employee benefits include wages, salaries, social security contributions, paid annual leave and sick leave, profit sharing and bonuses, and non-monetary benefits for current employees. The costs are recognized within the operating results when the employee has rendered the associated service. The Group recognizes a liability for profit sharing and bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. Termination costs are recognized at the earlier of when the Group can no longer withdraw the offer of the benefits or when the Group recognizes any related restructuring costs.

Post-employment benefits
For defined contribution plans, the Group's contributions are recognized within the operating results when the employee has rendered the associated service.

For defined benefit plans the liability or asset recognized in the balance sheet is the net amount of the present value of the defined benefit obligation and the fair value of the plan assets. All changes in the net defined benefit liability (asset) are recognized as they occur as follows:

Recognized in the income statement:
- Current service costs are charged to the appropriate income statement heading within the operating results.
- Past service costs, including curtailment gains or losses, are recognized immediately in general and administration within the operating results.
- Settlement gains or losses are recognized in general and administration within the operating results.
- Net interest on the net defined benefit liability (asset) is recognized in financing costs.

Recognized in other comprehensive income:
- Actuarial gains and losses arising from experience adjustments (the difference between previous assumptions and what has actually occurred) and changes in actuarial assumptions.
- The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset).

Net interest on the net defined benefit liability (asset) comprises interest income on plan assets and interest costs on the defined benefit obligation. The net interest is calculated using the same discount rate that is used in calculating the defined benefit obligation, applied to the net defined benefit liability (asset) at the start of the period, taking account of any changes from contribution or benefit payments.

Pension assets and liabilities in different defined benefit plans are not offset unless the Group has a legally enforceable right to use the surplus in one plan to settle obligations in the other plan.

Equity compensation plans
The fair value of all equity compensation awards, including restricted stocks, granted to directors and certain employees is estimated at the grant date and recorded as an expense over the vesting period. The expense is charged to the appropriate income statement heading within the operating results. For equity-settled plans, an increase in equity is recorded for this expense and any subsequent cash flows from exercises of vested awards are recorded as changes in equity.

Property, plant and equipment
Property, plant and equipment are initially recorded at cost of purchase or construction, and include all costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. These include items such as costs of site preparation, installation and assembly costs and professional fees. The net costs of testing whether the asset is functioning properly, including validation costs, are also included in the initially recorded cost of construction.

Property, plant and equipment are depreciated on a straight-line basis, except for land, which is not depreciated. The estimated useful lives of major classes of depreciable assets are as follows:
- Land improvements: 40 years
- Buildings: 10-50 years
- Machinery and equipment: 3-15 years

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components. The estimated useful lives of the assets are regularly reviewed, and, if necessary, the future depreciation charges are accelerated. Repairs and maintenance costs are expensed as incurred.

Leases
At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group recognizes a right-of-use asset and a corresponding lease liability for each contract that is, or contains, a lease at the lease commencement date, except for short-term leases and leases of low-value assets. Payments for short-term leases and leases of low-value assets are recognized as an expense on a straight-line basis over the term of the respective lease.

The lease liability is initially measured at the present value of the future lease payments that are not paid at the lease commencement date. The lease payments are discounted using the interest rate implicit in the lease or, if not readily determinable, the Group's incremental borrowing rate in the respective markets. Lease payments include fixed payments, variable payments that depend on an index or rate known at the lease commencement date and payments from exercising purchase options if the Group is reasonably certain to exercise. The lease liability is subsequently measured at amortized costs using the effective interest method. It is remeasured, with a corresponding adjustment to the related right-of-use asset, when there is a change in future lease payments following a contract renegotiation, a change of an index or rate or a reassessment of options.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any payments made at or before the lease commencement date and which includes any initial direct costs incurred and expected costs of obligations to dismantle, remove or refurbish the underlying asset, less any incentives received. Right-of-use assets are depreciated on a straight-line basis from the commencement date to the end of the useful life of the underlying asset if the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset reflects that the lessee will exercise a purchase option. Otherwise, right-of-use assets are depreciated on a straight-line basis from the lease commencement date over the shorter of the lease term or the useful life of the underlying asset. Right-of-use assets are assessed for impairment whenever there is an indication for impairment.

Intangible assets
Purchased patents, trademarks, licenses and other intangible assets are initially recorded at cost. Assets that have been acquired through a business combination are initially recorded at fair value. Once available for use, intangible assets are amortized on a straight-line basis over their useful lives. The estimated useful life is the lower of the legal duration and the economic useful life. The estimated useful lives of intangible assets are regularly reviewed.

Estimated useful lives of major classes of amortizable intangible assets are as follows:
- Product intangibles in use: 2-18 years
- Marketing intangibles in use: 5 years

Impairment of property, plant and equipment, right-of-use assets and intangible assets
An impairment assessment is carried out at each reporting date when there is evidence that an asset may be impaired. In addition intangible assets that are not yet available for use are tested for impairment annually. When the recoverable amount of an asset, being the higher of its fair value less costs to sell and its value in use, is less than its carrying value, then the carrying value is reduced to its recoverable amount. This reduction is reported in the income statement as an impairment loss. Value in use is calculated using estimated cash flows. These are discounted using an appropriate long-term interest rate. When an impairment loss arises, the useful life of the asset is reviewed and, if necessary, the future depreciation/amortization charge is accelerated.

If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through the income statement as an impairment reversal.

Inventories
Inventories are stated at the lower of cost and net realizable value. The cost of finished goods, work in process and intermediates includes raw materials, direct labor and other directly attributable costs and overheads based upon the normal capacity of production facilities. Cost is determined using the weighted average method. Net realizable value is the estimated selling price less cost to completion and selling expenses.

Accounts receivable
Accounts receivable are carried at the original invoice amount less allowances made for doubtful accounts, trade discounts, cash discounts, volume rebates and similar allowances. A receivable represents a right to consideration that is unconditional and excludes contract assets. The Group always measures an allowance for doubtful accounts that result from transactions that are within the scope of IFRS 15 equal to the credit losses expected over the lifetime of the trade receivables. These estimates are based on specific indicators, such as the ageing of customer balances, specific credit circumstances and the Group's historical loss rates for each category of customers, and adjusted for forward looking macroeconomic data. The Group measures an allowance for doubtful accounts that result from transactions that are not within the scope of IFRS 15 equal to 12-months expected credit losses when the credit risk for these accounts has not increased significantly since initial recognition.

Expenses for doubtful trade receivables are recognized within marketing and distribution expenses. Trade discounts, cash discounts, volume rebates and similar allowances are recorded on an accrual basis consistent with the recognition of the related sales, using estimates based on existing contractual obligations, historical trends and the Group's experience. Accounts receivable are written off (either partially or in full) when there is no reasonable expectation of recovery. Where receivables have been written off, the Group continues to engage in enforcement activities to attempt to recover the receivable due. Where recoveries are made, these are recognized in profit or loss.

Cash and cash equivalents
Cash and cash equivalents include cash on hand and time, call and current balances with banks and similar institutions. Such balances are only reported as cash equivalents if they are readily convertible to known amounts of cash, are subject to insignificant risk of changes in their fair value and have a maturity of three months or less from the date of acquisition.

Provisions and contingencies
Provisions are recognized where a legal or constructive obligation has been incurred which will probably lead to an outflow of resources that can be reliably estimated. In particular, restructuring provisions are recognized when the Group has a detailed formal plan that has either commenced implementation or has been announced. Provisions are recorded for the estimated ultimate liability that is expected to arise and are discounted when the time value of money is material.

A contingent liability is disclosed where the existence of the obligation will only be confirmed by future events or where the amount of the obligation cannot be measured with reasonable reliability. Contingent assets are not recognized, but are disclosed where an inflow of economic benefits is probable.

Fair values
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is determined by reference to quoted market prices or by the use of established valuation techniques such as option pricing models and the discounted cash flow method if quoted prices in an active market are not available.

Financial instruments
The Group classifies its financial assets, with the exception of derivatives, in the following measurement categories: amortized cost; fair value through OCI; and fair value through profit or loss.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows. The Group reclassifies debt securities and financial assets measured at amortized cost when and only when its business model for managing those assets changes.

At initial recognition, the Group measures a financial asset at its fair value excluding trade receivables at transaction price if it does not contain a significant financing component. In the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset are added to the fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets measured at amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. A gain or loss on a debt security that is subsequently measured at amortized cost and is not part of a hedging relationship is recognized in profit or loss when the asset is derecognized or impaired. Interest income from these financial assets is included in other financial income using the effective interest rate method. Financial assets measured at amortized cost are mainly comprised of accounts receivable, cash and cash equivalents and time accounts over three months.

Financial assets measured at fair value through other comprehensive income (fair value through OCI): These are financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest. These assets are initially recorded and subsequently carried at fair value. Changes in the fair value are recorded in other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in profit and loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in other financial income using the effective interest rate method. Financial assets measured at fair value through other comprehensive income are mainly comprised of money market instruments.

Equity instruments measured at fair value through other comprehensive income (fair value through OCI): These are equity instruments measured at fair value through OCI for which an irrevocable election at initial recognition has been made, to present subsequent changes in fair value in other comprehensive income. Dividends are recognized as other financial income in profit or loss. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss. When the instruments are derecognized, the cumulative amount of other comprehensive income is transferred to retained earnings.

Financial assets measured at fair value through profit or loss: These are financial assets whose performance is evaluated on a fair value basis. A gain or loss on a financial asset that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented within other financial income (expense) in the period in which it arises. Fair value through profit or loss assets are mainly comprised of debt instruments.

The Group classifies its financial liabilities as measured at amortized cost, except for derivatives. Financial liabilities are initially recorded at fair value, less transaction costs and subsequently carried at amortized cost using the effective interest rate method. Financial liabilities are mainly comprised of trade payables.

Derivative financial instruments that are used to manage the exposures to foreign currency exchange rate fluctuations are initially recorded and subsequently carried at fair value. Apart from those derivatives designated as qualifying cash flow hedging instruments, all changes in fair value are recorded as other financial income (expense).

Derecognition of financial instruments
A financial asset is derecognized when the contractual rights to the cash flows from the asset expire or when the Group transfers the rights to receive the contractual cash flows from the financial assets in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. A financial liability is derecognized when the contractual obligations are discharged, cancelled or expire.

Impairment of financial assets
The Group recognizes loss allowances for expected credit losses ('ECL') for financial assets measured at amortized cost and debt securities measured at fair value through OCI.

The Group always measures loss allowances that result from transactions that are within the scope of IFRS 15 equal to the credit losses expected over the lifetime of the trade receivables.

The Group measures loss allowances at an amount equal to 12-month expected credit losses for its debt securities carried at fair value through OCI and at amortized cost when the credit risk for these accounts has not increased significantly since initial recognition at the reporting date. The Group considers a debt investment to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group considers this to be at least Baa3 from Moody's and BBB-from S&P.

The Group measures the allowances for doubtful account at an amount equal to lifetime ECL for its debt investments at fair value through OCI and at amortized cost on which credit risk has increased significantly since their initial recognition. The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when the counterparty is unlikely to pay its obligations to the Group in full. In assessing whether a counterparty is in default, the Group considers both qualitative and quantitative indicators that are based on data developed internally and for certain financial assets also obtained from external sources.

Financial assets are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the customer does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off are still subject to enforcement activities in order to comply with the Group's policy for recovery of amounts due.

Hedge accounting
The Group uses derivatives to manage its exposures to foreign currency risk. The instruments used mainly include forwards contracts. The Group generally limits the use of hedge accounting to certain significant transactions. To qualify for hedge accounting the hedging relationship must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. While many of these transactions can be considered as hedges in economic terms, if the required conditions are not met, then the relationship does not qualify for hedge accounting. In this case the hedging instrument and the hedged item are reported independently as if there were no hedging relationship, which means that any derivatives are reported at fair value, with changes in fair value included in other financial income (expense).

As the Group may continue to apply the hedge accounting requirements of IAS 39 instead of those in IFRS 9 at the initial application of IFRS 9, the Group has chosen to continue to apply the hedge accounting requirements of IAS 39.

A cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. The hedging instrument is recorded at fair value. The effective portion of the hedge is included in other comprehensive income and any ineffective portion is reported in other financial income (expense). If the hedging relationship is the hedge of the foreign currency risk of a firm commitment or highly probable transaction, when that transaction results in the recognition of a non-financial item, the cumulative changes in the fair value of the hedging instrument that have been recorded in other comprehensive income are included in the initial carrying value of the non-financial item at the date of recognition, or otherwise included in profit or loss when the hedged transaction affects net income.

For other hedged forecasted cash flows, the cumulative changes in the fair value of the hedging instrument that have been recorded in other comprehensive income are included in other financial income (expense) when the forecasted transaction affects net income. Hedge accounting is discontinued proactively if the hedging instrument is sold, expired, terminated or exercised; if the hedge no longer meets the requirements of hedge accounting; or if the hedging instrument is no longer designated as a qualifying cash flow hedging instrument. If a forecast transaction is no longer considered highly probable, the cumulative changes in the fair value of the hedging instrument that have been recorded in other comprehensive income are immediately transferred to other financial income (expense).

Taxation
Income taxes include all taxes based upon the taxable profits of the Group. Other taxes not based on income, such as property and capital taxes, are included in the appropriate heading within the operating results.

Liabilities for income taxes, which could arise on the remittance of retained earnings, principally relating to subsidiaries, are only recognized where it is probable that such earnings will be remitted in the foreseeable future. Where the amount of tax liabilities is uncertain, accruals are recorded within income tax liabilities for management’s best estimate of the ultimate liability that is expected to arise based on the specific circumstances and the Group’s historical experience.

Deferred tax assets and liabilities are recognized on temporary differences between the tax bases of assets and liabilities and their carrying values. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized.

Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same taxation authority and when there is a legally enforceable right to offset them. Deferred taxes are determined based on the currently enacted tax rates applicable in each tax jurisdiction where the Group operates.

Own equity instruments
The Group’s holdings in its own equity instruments are recorded as a deduction from equity. The original purchase cost, consideration received for subsequent resale of these equity instruments and other movements are reported as changes in equity. The exercise of stock acquisition rights granted to directors and certain employees will result in the allotment from own equity instruments.

(4) Changes in accounting policies
The Group applies the same accounting policies that were applied to the consolidated financial statements for the year ended December 31, 2021. 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.

(5) 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, 2023 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 the research and development of new prescription medicines and the subsequent manufacturing, marketing and distribution activities. These functional activities are integrated and managed effectively.

Information on revenues by geographical area in millions of yen

	2022			2021		
	Sales	Royalties and other operating income	Other revenue	Sales	Royalties and other operating income	Other revenue
Japan	654,663	2,610	-	518,948	3,449	-
Overseas	384,584	126,173	91,915	283,888	193,473	-
of which Switzerland	358,128	124,608	-	261,734	188,483	-
Total	**1,039,247**	**128,784**	**91,915**	**802,836**	**196,922**	**-**

Information on revenues by major customers in millions of yen

	2022	2021
	Revenues	Revenues
F. Hoffmann-La Roche Ltd.	482,737	450,217
Ministry of Health, Labour and Welfare, Japan	203,655	77,449
Alfresa Corporation	91,655	104,690

3. Revenue

Disaggregated revenue information in millions of yen

	2022			2021		
	Revenue from contracts with customers	Revenue from other sources	**Total**	Revenue from contracts with customers	Revenue from other sources	**Total**
Sales	1,075,866	(36,619)	**1,039,247**	813,247	(10,410)	**802,836**
Japan	654,663	-	**654,663**	518,948	-	**518,948**
Overseas	421,202	(36,619)	**384,584**	294,298	(10,410)	**283,888**
Royalties and other operating income	116,058	12,725	**128,784**	175,922	21,000	**196,922**
Royalty and profit-sharing income	110,451	12,725	**123,177**	166,168	21,000	**187,168**
Other operating income	5,607	-	**5,607**	9,754	-	**9,754**
Other revenue	-	91,915	**91,915**	-	-	**-**

The revenue from other sources primarily relates to collaboration income for which the counterparty is not considered a customer, such as income from profit-sharing arrangements, gains or losses from hedging activities, and a lump-sum payment associated with a settlement agreement concluded between Chugai and Alexion Pharmaceuticals, Inc., included in Other revenue for the year ended December 31, 2022.

Contract balances in millions of yen

	December 31, 2022	January 1, 2022
Receivables-contracts with customers	479,149	329,740
Accounts receivable	436,422	281,357
Other current receivables	41,153	45,889
Other non-current receivables	1,574	2,494
Contract assets	310	620
Contract liabilities	49	93

Contract assets, which are mainly variable consideration from the disposal of product and similar rights, generally increase when the Group transfers goods or services to a customer (excluding claims for which the right to remuneration is unconditional) before the customer pays the consideration or before the payment becomes due and decrease when the Group bills the customer.

Contract liabilities, which mainly arise from consignment agreements, generally increase when the Group receives consideration from a customer prior to the transfer of goods or services to the customer and decrease when the Group meets its performance obligations.

Of the amount of revenue recognized for the year ended December 31, 2022, ¥50 million was included in the beginning balance of contract liabilities.

In 2022 there was revenue recognized of ¥104,472 million (2021: ¥167,702 million) relating to performance obligations that were satisfied (or partially satisfied) in previous periods, mainly in relation to royalty and milestone revenue.

Transaction price allocated to the remaining performance obligations

There are no material amounts of the total transaction price allocated to the remaining performance obligations which have an original expected duration of more than one year as of December 31, 2022. As a practical expedient, the Group does not disclose the information for remaining performance obligations which are part of contracts that have an original expected duration of one year or less.

There are no material amounts which are not included in the transaction price in the consideration from the contracts with customers.

4. Financing costs and other financial income (expense)

Financing costs in millions of yen

	2022	2021
Net interest cost of defined benefit plans	(1)	1
Interest expense on lease liabilities	(58)	(48)
Net other financing costs	(1)	(1)
Total financing costs	**(61)**	**(48)**

Other financial income (expense) in millions of yen

	2022	2021
Dividend income from equity instruments measured at fair value through OCI	3	3
Net income from equity securities	**3**	**3**
Interest income from debt securities measured at fair value through OCI	144	111
Interest income from financial assets measured at amortized cost	182	55
Net interest income and income from debt securities	**326**	**166**
Foreign exchange gains (losses)	14,045	3,802
Gains (losses) on foreign currency derivatives	(13,546)	(3,867)
Net foreign exchange gains (losses)	**499**	**(65)**
Net other financial income (expense)	(776)	(28)
Total other financial income (expense)	**52**	**76**

5. Other expense

Chugai filed an Advance Pricing Arrangement covering certain transactions with F. Hoffmann-La Roche Ltd. ("Roche"), to the Japanese and Swiss tax authorities and received a notice of agreement. During the year ended December 31, 2022, Chugai received a revised notice of agreement from both tax authorities which included an 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 for each of the years ended December 31, 2017 and 2018.

As a result of this agreement, Chugai transferred a part of the deducted amount of income taxes to Roche as the estimated tax payable for Roche, in accordance with the license agreement between Chugai and Roche. In addition, Chugai has recorded ¥2,134 million of adjustment from transfer pricing taxation for the year ended December 31, 2022.

6. Income taxes

Income tax expenses in millions of yen

	2022	2021
Current income taxes	(163,507)	(126,248)
Deferred taxes	6,770	9,858
Total income tax (expense)	**(156,737)**	**(116,390)**

Reconciliation of the Group's effective tax rate

	2022	2021
Weighted average expected tax rate	30.4%	30.3%
Tax effect of		
- Non-taxable income/non-deductible expenses	0.1%	0.0%
- Research and development tax credits	(2.6)%	(2.7)%
- Transfer pricing taxation related	(0.4)%	(1.1)%
- Other differences	2.1%	1.2%
Group's effective tax rate	**29.5%**	**27.8%**

Tax effects of other comprehensive income in millions of yen

	2022			2021		
	Pre-tax amount	Tax benefit	After-tax amount	Pre-tax amount	Tax benefit	After-tax Amount
Remeasurements of defined benefit plans	4,364	(1,343)	3,021	839	(255)	583
Financial assets measured at fair value through OCI	(425)	130	(296)	(416)	128	(288)
Cash flow hedges	(12,605)	3,846	(8,759)	(421)	128	(292)
Currency translation of foreign operations	5,540	-	5,540	3,022	-	3,022
Other comprehensive income	**(3,126)**	**2,632**	**(494)**	**3,024**	**1**	**3,025**

Income tax assets (liabilities) in millions of yen

	December 31, 2022	December 31, 2021
Current income taxes		
- Assets	1,745	928
- Liabilities	(98,543)	(86,312)
Net current income tax assets (liabilities)	**(96,798)**	**(85,384)**
Deferred taxes		
- Assets	65,244	56,287
- Liabilities	(7,086)	(7,614)
Net deferred tax assets (liabilities)	**58,158**	**48,674**

Current income taxes: movements in recognized net assets (liabilities) in millions of yen

	2022	2021
Net current income tax assets (liabilities) at January 1	(85,384)	(63,158)
Income taxes paid	152,082	104,074
(Charged) credited to the income statement	(163,507)	(126,248)
Currency translation effects and other	11	(52)
Net current income tax assets (liabilities) at December 31	**(96,798)**	**(85,384)**

Deferred taxes: movements in recognized net assets (liabilities) in millions of yen

	Property, plant and equipment and right-of-use assets	Intangible assets	Provisions	Employee benefits	Other temporary differences	Total
Year ended December 31, 2021						
At January 1, 2021	(23,228)	(2,712)	174	3,265	61,270	38,768
(Charged) credited to the income statement	(3,227)	1,237	(61)	(278)	12,187	9,858
(Charged) credited to other comprehensive income	-	-	-	(255)	264	9
Currency translation effects and other	(96)	0	1	4	130	39
At December 31, 2021	**(26,551)**	**(1,475)**	**114**	**2,735**	**73,851**	**48,674**
Year ended December 31, 2022						
At January 1, 2022	(26,551)	(1,475)	114	2,735	73,851	48,674
(Charged) credited to the income statement	(4,718)	33	1	(353)	11,807	6,770
(Charged) credited to other comprehensive income	-	-	-	(1,343)	3,976	2,632
Currency translation effects and other	(407)	0	4	3	481	81
At December 31, 2022	**(31,676)**	**(1,441)**	**119**	**1,042**	**90,115**	**58,158**

Other temporary differences mainly relate to prepaid expenses, production supplies and amortization of deferred assets.

Deferred tax assets are not recognized for deductible temporary differences of ¥456 million (2021: ¥570 million). Deferred tax assets are recognized for tax losses carried forward only to the extent that realization of the related tax benefit is probable.

Unrecognized tax losses: expiry in millions of yen

	2022	2021
Less than one year	158	62
Over one year and less than five years	387	292
Over five years	-	-
Tax losses not recognized in deferred tax assets	**545**	**354**

Deferred tax assets for unused tax credits are recognized only to the extent that realization of the related tax benefit is probable.

Unrecognized unused tax credits: expiry in millions of yen

	2022	2021
Less than one year	-	-
Over one year and less than five years	134	-
Over five years	-	116
Unused tax credits not recognized in deferred tax assets	**134**	**116**

Deferred tax liabilities have not been established for the withholding tax and other taxes that would be payable on the unremitted earnings of wholly owned foreign subsidiaries of the Group, where such amounts are currently regarded as permanently reinvested. The temporary differences relating to the unremitted earnings were ¥3,539 million (2021: ¥3,501 million).

7. Property, plant and equipment

Property, plant and equipment: movements in carrying value of assets in millions of yen

	Land	Buildings and land improvements	Machinery and equipment	Construction in progress	Total
At January 1, 2021					
Cost	52,155	141,512	225,360	79,837	498,864
Accumulated depreciation and impairment	(16)	(79,695)	(129,936)	-	(209,647)
Net book value	**52,139**	**61,817**	**95,425**	**79,837**	**289,218**
Year ended December 31, 2021					
At January 1, 2021	52,139	61,817	95,425	79,837	289,218
Additions	-	3	363	71,627	71,993
Disposals	(916)	(208)	(517)	-	(1,641)
Transfers	(1,191)	2,138	17,974	(18,922)	-
Depreciation charge	-	(7,999)	(12,975)	-	(20,974)
Impairment charge	-	-	-	-	-
Other	-	-	(123)	-	(123)
Currency translation effects	-	116	212	41	369
At December 31, 2021	**50,032**	**55,867**	**100,359**	**132,584**	**338,841**
Cost	50,048	139,868	235,292	132,584	557,791
Accumulated depreciation and impairment	(16)	(84,001)	(134,933)	-	(218,950)
Net book value	**50,032**	**55,867**	**100,359**	**132,584**	**338,841**
Year ended December 31, 2022					
At January 1, 2022	50,032	55,867	100,359	132,584	338,841
Additions	-	47	478	61,313	61,838
Disposals	(72)	(228)	(327)	-	(628)
Transfers	(1,197)	102,592	61,761	(163,156)	-
Depreciation charge	-	(9,372)	(14,318)	-	(23,690)
Impairment charge	-	(3)	(4)	-	(8)
Other	-	-	(1,498)	-	(1,498)
Currency translation effects	-	91	343	50	484
At December 31, 2022	**48,763**	**148,994**	**146,793**	**30,791**	**375,340**
Cost	48,779	241,533	292,433	30,791	613,536
Accumulated depreciation and impairment	(16)	(92,539)	(145,641)	-	(238,196)
Net book value	**48,763**	**148,994**	**146,793**	**30,791**	**375,340**

In 2022, no borrowing costs were capitalized as property, plant and equipment (2021: none).

Impairment charge

The carrying value was reduced to the value in use as the recoverable amount of certain assets was less than the carrying value.

Classification of impairment of property, plant and equipment in millions of yen

	2022	2021
Cost of sales	0	-
Marketing and distribution	-	-
Research and development	2	-
General and administration	6	-
Total impairment charge	**8**	**-**

Commitments
The Group has commitments for the purchase or construction of property, plant and equipment after December 31, 2022 totaling ¥52,115 million (2021: ¥64,668 million).

8. Leases

The Group enters into leasing transactions as a lessee mainly for reasons of convenience and flexibility. The Group has good cash generation ability and it enjoys strong long-term investment grade credit ratings. Therefore, it typically does not enter into leasing arrangements for financing considerations. The main areas of leases that the Group has entered into are for offices and motor vehicles.

The right-of-use assets reported for the Group's leases are shown in the table below.

Right-of-use assets: movements in carrying value of assets in millions of yen

	Buildings and land improvements	Machinery and equipment	Total
Year ended December 31, 2021			
At January 1, 2021	6,918	1,355	8,272
Depreciation charge	(5,298)	(593)	(5,890)
At December 31, 2021	**11,881**	**1,385**	**13,266**

Additions to the right-of-use assets during 2021 were ¥14,298 million.

	Buildings and land improvements	Machinery and equipment	Total
Year ended December 31, 2022			
At January 1, 2022	11,881	1,385	13,266
Depreciation charge	(4,143)	(574)	(4,717)
At December 31, 2022	**9,917**	**1,394**	**11,311**

Additions to the right-of-use assets during 2022 were ¥6,823 million.

Lease liabilities are presented in other current liabilities and other non-current liabilities. The amount of current lease liabilities and non-current lease liabilities are given in Note 18 and 20 respectively. Interest expense on the lease liability during 2022 was ¥58 million (¥48 million during 2021). The maturity analysis of lease liabilities is shown in the table below.

Contractual maturities of lease liabilities in millions of yen

	Carrying value	Total	Less than 1 year	1-2 years	2-5 years	Over 5 years
At December 31, 2021						
Lease liabilities	16,040	16,249	6,620	5,119	4,476	33

	Carrying value	Total	Less than 1 year	1-2 years	2-5 years	Over 5 years
At December 31, 2022						
Lease liabilities	14,109	14,284	6,532	5,143	2,585	24

Short-term leases and leases of low-value assets are accounted for using the recognition exemption permitted by IFRS 16. Expenses for short-term leases are recognized on a straight-line basis and mainly include short-term leases for parking lots. The total amount reported in 2022 was ¥629 million (¥863 million in 2021). Expenses for leases of low-value assets are recognized on a straight-line basis and mainly include IT equipment. The total amount reported in 2022 was ¥367 million (¥363 million in 2021). Expenses for variable lease payments not included in the measurement of lease liabilities reported in 2022 was ¥79 million (¥126 million in 2021). The Group did not enter into any sale and leaseback transactions.

The major cash flows in respect of leases where the Group is the lessee are shown in the table below.

Leases: cash flows in millions of yen

	2022	2021
Included in cash flows from operating activities	(1,075)	(1,353)
Included in cash flows from financing activities	(7,657)	(9,078)
Total lease payments	**(8,732)**	**(10,431)**

Cash flows from operating activities include cash flows from short-term leases, leases of low-value assets and variable lease payments. Cash flows from financing activities include the payment of interest and the principal portion of lease liabilities as well as prepayments made before the lease commencement date.

9. Intangible assets

Intangible assets: movements in carrying value of assets in millions of yen

	Product intangibles: in use	Product intangibles: not available for use	Marketing intangibles: in use	Technology intangibles: in use	Total
At January 1, 2021					
Cost	24,456	23,304	11,074	667	59,501
Accumulated amortization and impairment	(17,576)	(12,441)	(4,940)	(663)	(35,620)
Net book value	**6,880**	**10,862**	**6,134**	**4**	**23,880**
Year ended December 31, 2021					
At January 1, 2021	6,880	10,862	6,134	4	23,880
Additions	16	7,863	559	-	8,438
Disposals	-	-	-	-	-
Transfers	4,959	(4,959)	-	-	-
Amortization charge	(2,194)	-	(1,806)	(4)	(4,004)
Impairment charge	(467)	(4,063)	(1,812)	-	(6,342)
Currency translation effects	2	-	-	-	2
At December 31, 2021	**9,196**	**9,704**	**3,074**	**-**	**21,974**
Cost	28,393	26,270	11,567	667	66,896
Accumulated amortization and impairment	(19,197)	(16,566)	(8,492)	(667)	(44,922)
Net book value	**9,196**	**9,704**	**3,074**	**-**	**21,974**
Year ended December 31, 2022					
At January 1, 2022	9,196	9,704	3,074	-	21,974
Additions	1,641	5,183	-	-	6,825
Disposals	-	-	-	-	-
Transfers	1,304	(1,304)	-	-	-
Amortization charge	(1,678)	-	(1,349)	-	(3,027)
Impairment charge	-	(633)	-	-	(633)
Currency translation effects	3	-	0	-	3
At December 31, 2022	**10,467**	**12,950**	**1,725**	**-**	**25,141**
Cost	31,723	29,080	11,467	667	72,937
Accumulated amortization and impairment	(21,257)	(16,130)	(9,742)	(667)	(47,795)
Net book value	**10,467**	**12,950**	**1,725**	**-**	**25,141**

Significant intangible assets
The product intangibles in use and not available for use are mainly acquired through in-licensing agreements of products with related parties. The remaining amortization periods for product intangibles in use are from 1 to 16 years.

Impairment charge
Impairment charge in each year was mainly related to the cessation of R&D projects and the uncertainty regarding expected profits.

Classification of amortization and impairment expenses in millions of yen

	2022		2021	
	Amortization	Impairment	Amortization	Impairment
Cost of sales	1,207	-	2,194	467
Marketing and distribution	263	-	258	-
Research and development	932	633	672	5,351
General and administration	625	-	880	524
Total	**3,027**	**633**	**4,004**	**6,342**

Internally generated intangible assets
The Group currently has no internally generated intangible assets from development as the criteria for the recognition as an asset are not met.

Intangible assets with indefinite useful lives
The Group currently has no intangible assets with indefinite useful lives.

Product intangibles not available for use
These mostly represent in-process research and development assets acquired either through in-licensing arrangements or separate purchases. Due to the inherent uncertainties in the research and development processes, intangible assets not available for use are particularly at risk of impairment if the project is not expected to result in a commercialized product.

Impairment of intangible assets
Impairment charges arise from changes in the estimates of the future cash flows expected to result from the use of the asset and its eventual disposal. Factors such as the presence or absence of competition, technical obsolescence or lower than anticipated sales for products with capitalized rights could result in shortened useful lives or impairment.

Potential commitments from alliance collaborations
The Group is party to in-licensing and similar arrangements with its alliance partners. These arrangements may require the Group to make certain milestone or other similar payments dependent upon the achievement of agreed objectives or performance targets as defined in the collaboration agreements.

The Group's current estimate of future commitments for such payments is set out in the table below. These figures are undiscounted and are not risk adjusted, meaning that they include all such potential payments that can arise assuming all projects currently in development are successful. The timing is based on the Group's current best estimate.

Potential future collaboration payments at December 31, 2022 in millions of yen

	Third party	Related party	Total
Within one year	1,518	1,489	3,007
Between one and two years	1,630	5,112	6,742
Between two and three years	106	20,088	20,194
Total	**3,255**	**26,689**	**29,944**

10. Financial non-current assets

Financial non-current assets in millions of yen

	December 31, 2022	December 31, 2021
Financial assets measured at fair value through OCI	1,837	2,393
Total financial non-current assets	**1,837**	**2,393**

Financial non-current assets are equity instruments held not for pure investment purposes, but for the Group's business purposes to maintain and strengthen the relationship with business partners. Therefore, the Group has designated all equity instruments as measured at fair value through OCI.

11. Other non-current assets

Other non-current assets in millions of yen

	December 31, 2022	December 31, 2021
Long-term prepaid expenses	34,064	23,987
Debt instruments	9,637	9,383
Other assets	5,475	7,573
Total other non-current assets	**49,176**	**40,944**

Long-term prepaid expenses are mainly payments for validation costs at plants used for outsourcing.

12. Inventories

Inventories in millions of yen

	December 31, 2022	December 31, 2021
Raw materials and supplies	47,868	32,646
Work in process	248	197
Intermediates	165,442	105,478
Finished goods	80,345	71,661
Provision for slow-moving and obsolete inventory	(1,697)	(1,143)
Total inventories	**292,206**	**208,838**

Inventories expensed through cost of sales totaled ¥461,879 million (2021: ¥326,429 million). Inventory write-downs during the year resulted in an expense of ¥2,482 million (2021: ¥1,350 million).

13. Accounts receivable

Accounts receivable in millions of yen

	December 31, 2022	December 31, 2021
Trade receivables – third party	293,259	172,878
Trade receivables – related party	143,144	108,460
Notes receivables	19	19
Other receivables – third party (Contracts with customers)	2,657	1,713
Other receivables – related party (Contracts with customers)	38,496	44,176
Other receivables – third party	22,106	4,764
Other receivables – related party	12,877	23,090
Allowances for doubtful accounts	(20)	(17)
Total accounts receivable	**512,538**	**355,081**

14. Marketable securities

Marketable securities in millions of yen

	December 31, 2022	December 31, 2021
Financial assets measured at fair value through OCI		
Money market instruments	249,988	199,989
Debt securities	5,906	924
Financial assets measured at amortized cost		
Time accounts over three months	25,044	3,303
Total marketable securities	**280,938**	**204,217**

Marketable securities are held for fund management purposes. Money market instruments are mainly certificates of deposit, cash in trust and commercial paper. Debt securities are mainly corporate bonds.

15. Cash and cash equivalents

Cash and cash equivalents in millions of yen

	December 31, 2022	December 31, 2021
Cash - cash in hand and in current or call accounts	215,619	261,331
Cash equivalents - time accounts with a maturity of three months or less	6,549	6,421
Total cash and cash equivalents	**222,169**	**267,753**

16. Other current assets

Other current assets in millions of yen

	December 31, 2022	December 31, 2021
Derivative financial instruments	7,861	9,233
Total financial current assets	**7,861**	**9,233**
Prepaid expenses	18,770	17,301
Other	310	310
Total non-financial current assets	**19,080**	**17,611**
Total other current assets	**26,941**	**26,844**

17. Provisions and contingent liabilities

Provisions: movements in recognized liabilities in millions of yen

	Environmental provisions	Other provisions	Total
Year ended December 31, 2021			
At January 1, 2021	402	2,098	2,500
Additional provisions created	34	2,649	2,683
Unused amounts reversed	-	(40)	(40)
Utilized	(86)	(606)	(692)
Other	0	345	345
At December 31, 2021	**349**	**4,447**	**4,796**
Long-term provisions	329	1,772	2,101
Short-term provisions	20	2,675	2,695
At December 31, 2021	**349**	**4,447**	**4,796**
Year ended December 31, 2022			
At January 1, 2022	349	4,447	4,796
Additional provisions created	91	2,597	2,688
Unused amounts reversed	(184)	(848)	(1,032)
Utilized	(50)	(1,754)	(1,803)
Other	-	87	87
At December 31, 2022	**207**	**4,529**	**4,736**
Long-term provisions	199	2,557	2,756
Short-term provisions	7	1,972	1,980
At December 31, 2022	**207**	**4,529**	**4,736**
Expected outflow of resources			
Within one year	7	1,972	1,980
Between one to two years	-	619	619
Between two to three years	61	479	540
More than three years	138	1,460	1,597
At December 31, 2022	**207**	**4,529**	**4,736**

Environmental provisions

Provisions for environmental matters include various separate environmental issues. By their nature the amounts and timings of any outflows are difficult to predict. Significant provisions are discounted where the time value of money is material.

Other provisions

Other provisions mainly relate to asset retirement obligations, onerous contracts, and site restoration. The timing of cash outflows are uncertain due to their nature. Significant provisions are discounted where the time value of money is material.

Contingent liabilities

The operations and earnings of the Group continue, from time to time and in varying degrees, to be affected by political, legislative, fiscal and regulatory developments, including those relating to environmental protection. The industries in which the Group operates are also subject to other risks of various kinds. The nature and frequency of these developments and events, not all of which are covered by insurance, as well as their effect on future operations and earnings, are not predictable.

The Group has entered into in-licensing and alliance arrangements and intangible asset purchase agreements, including asset acquisitions, in order to gain access to potential new products or to utilize other companies to help develop the Group's own potential new products. Potential future payments may become due to certain collaboration partners achieving certain milestones as defined in the collaboration agreements. The Group's best estimates for future commitment payments are given in Note 9.

18. Other non-current liabilities

Other non-current liabilities in millions of yen

	December 31, 2022	December 31, 2021
Deferred income	430	490
Lease liabilities	7,675	9,490
Other long-term liabilities	383	615
Total other non-current liabilities	**8,489**	**10,595**

19. Accounts payable

Accounts payable in millions of yen

	December 31, 2022	December 31, 2021
Trade payables – third party	11,857	8,184
Trade payables – related party	132,198	89,020
Other taxes payable	5,306	8,672
Accounts payable purchase of property, plant and equipment	40,730	30,763
Other payables – third party	8,189	4,649
Other payables – related party	11,556	10,979
Total accounts payable	**209,835**	**152,266**

20. Other current liabilities

Other current liabilities in millions of yen

	December 31, 2022	December 31, 2021
Deferred income	79	86
Lease liabilities	6,434	6,550
Accrued bonus and related items	22,617	21,981
Derivative financial instruments	46,492	23,110
Other accrued liabilities	37,751	34,421
Total other current liabilities	**113,372**	**86,149**

21. Equity attributable to Chugai shareholders

Changes in equity attributable to Chugai shareholders in millions of yen

	Share capital	Capital surplus	Retained earnings	Other reserves Fair value reserve	Other reserves Hedging reserve	Other reserves Translation reserve	Total
Year ended December 31, 2021							
At January 1, 2021	73,202	67,586	849,093	400	(4,332)	(5,946)	980,003
Net income attributable to Chugai shareholders	-	-	302,995	-	-	-	302,995
Financial assets measured at fair value through OCI							
- Equity instruments measured at fair value through OCI	-	-	-	(421)	-	-	(421)
- Debt securities at fair value through OCI	-	-	-	5	-	-	5
- Income taxes	-	-	-	128	-	-	128
Cash flow hedges							
- Effective portion of fair value gains (losses) taken to equity	-	-	-	-	(12,479)	-	(12,479)
- Transferred to income statement	-	-	-	-	17,757	-	17,757
- Transferred to initial carrying amount of hedged items	-	-	-	-	(5,698)	-	(5,698)
- Income taxes	-	-	-	-	128	-	128
Currency translation of foreign operations							
- Exchange differences	-	-	-	-	-	3,022	3,022
- Non-controlling interests	-	-	-	-	-	-	-
Defined benefit plans							
- Remeasurement gains (losses)	-	-	839	-	-	-	839
- Income taxes	-	-	(255)	-	-	-	(255)
Other comprehensive income, net of tax	**-**	**-**	**583**	**(288)**	**(292)**	**3,022**	**3,025**
Total comprehensive income	**-**	**-**	**303,578**	**(288)**	**(292)**	**3,022**	**306,020**
Dividends	-	-	(98,642)	-	-	-	(98,642)
Equity compensation plans	-	(27)	-	-	-	-	(27)
Own equity instruments	-	664	-	-	-	-	664
Transfer from other reserves to retained earnings	-	-	21	(21)	-	-	-
At December 31, 2021	**73,202**	**68,223**	**1,054,050**	**91**	**(4,624)**	**(2,924)**	**1,188,017**

Changes in equity attributable to Chugai shareholders in millions of yen

	Share capital	Capital surplus	Retained earnings	Other reserves: Fair value reserve	Other reserves: Hedging reserve	Other reserves: Translation reserve	Total
Year ended December 31, 2022							
At January 1, 2022	73,202	68,223	1,054,050	91	(4,624)	(2,924)	1,188,017
Net income attributable to Chugai shareholders	-	-	374,429	-	-	-	374,429
Financial assets measured at fair value through OCI							
- Equity instruments measured at fair value through OCI	-	-	-	(406)	-	-	(406)
- Debt securities at fair value through OCI	-	-	-	(19)	-	-	(19)
- Income taxes	-	-	-	130	-	-	130
Cash flow hedges							
- Effective portion of fair value gains (losses) taken to equity	-	-	-	-	(32,770)	-	(32,770)
- Transferred to income statement	-	-	-	-	50,206	-	50,206
- Transferred to initial carrying amount of hedged items	-	-	-	-	(30,040)	-	(30,040)
- Income taxes	-	-	-	-	3,846	-	3,846
Currency translation of foreign operations							
- Exchange differences	-	-	-	-	-	5,540	5,540
- Non-controlling interests	-	-	-	-	-	-	-
Defined benefit plans							
- Remeasurement gains (losses)	-	-	4,364	-	-	-	4,364
- Income taxes	-	-	(1,343)	-	-	-	(1,343)
Other comprehensive income, net of tax	**-**	**-**	**3,021**	**(296)**	**(8,759)**	**5,540**	**(494)**
Total comprehensive income	**-**	**-**	**377,450**	**(296)**	**(8,759)**	**5,540**	**373,935**
Dividends	-	-	(138,148)	-	-	-	(138,148)
Equity compensation plans	-	(379)	-	-	-	-	(379)
Own equity instruments	-	961	-	-	-	-	961
Transfer from other reserves to retained earnings	-	-	0	(0)	-	-	-
At December 31, 2022	**73,202**	**68,806**	**1,293,352**	**(205)**	**(13,383)**	**2,616**	**1,424,387**

Share capital (Number of shares)

	December 31, 2022	December 31, 2021
Authorized shares	2,399,415,150	2,399,415,150
Issued shares (Non-par value common stock)	1,679,057,667	1,679,057,667

Dividends

Date of resolution	Type of shares	Total dividends (millions of yen)	Dividend per share (yen)	Record date	Effective date
March 23, 2021 (Resolution of the Annual General Meeting of shareholders)	Common stock	49,316	30	December 31, 2020	March 24, 2021
July 26, 2021 (Board resolution)	Common stock	49,326	30	June 30, 2021	August 30, 2021
March 29, 2022 (Resolution of the Annual General Meeting of shareholders)	Common stock	75,639	46	December 31, 2021	March 30, 2022
July 21, 2022 (Board resolution)	Common stock	62,510	38	June 30, 2022	August 30, 2022
March 30, 2023 (Resolution of the Annual General Meeting of shareholders)	Common stock	65,801	40	December 31, 2022	March 31, 2023

Own equity instruments

	Number of shares	
	2022	2021
At January 1	34,739,943	35,186,586
Issue of common stocks	-	-
Exercises of equity compensation plans	(620,100)	(356,400)
Purchase/Disposal of own equity instruments	8,555	6,357
Grant of restricted stock	(91,300)	(96,600)
At December 31	**34,037,098**	**34,739,943**
Book value (millions of yen)	**26,610**	**27,161**

Other reserves

Fair value reserve: The fair value reserve represents the cumulative net change in the fair value of financial assets measured at fair value through OCI until the asset is sold, impaired or otherwise disposed of.

Hedging reserve: The hedging reserve represents the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Translation reserve: The translation reserve represents the cumulative currency translation differences relating to the consolidation of foreign subsidiaries of the Group that use functional currencies other than the Japanese yen.

22. Employee benefits

Employee benefits expense in millions of yen

	2022	2021
Wages and salaries	88,106	84,631
Social security costs	10,630	10,107
Defined contribution plans	942	1,012
Operating expenses for defined benefit plans	4,721	4,316
Equity compensation plans	348	325
Other employee benefits	4,389	4,856
Employee benefits expense included in operating results	**109,135**	**105,247**
Net interest cost of defined benefit plans	1	(1)
Total employee benefits expense	**109,137**	**105,246**

Other employee benefits consist mainly of welfare costs.

23. Post-employment benefits plans

Post-employment benefits plans are classified as "defined contribution plans" if the Group pays fixed contributions into third-party financial institutions and will have no further legal or constructive obligation to pay further contributions. All other plans are classified as "defined benefit plans", even if Chugai's potential obligation is relatively minor or has a relatively remote possibility of arising.

Employees are covered by defined contribution and defined benefit plans sponsored by Group companies, most of which are classified as defined benefit plans.

A resolution was passed in the 98th Annual General Meeting of shareholders held in March 2009 to abolish the retirement benefits system for directors. In addition, a resolution was passed in the 95th Annual General Meeting of shareholders held in March 2006 to abolish the retirement benefits system for outside directors and audit & supervisory board members (including outside audit & supervisory board members).

Defined contribution plans
Defined contribution plans are funded through payments by the Group to funds administered by third parties. The Group's expenses for these plans were ¥942 million (2021: ¥1,012 million).

Defined benefit plans
The Group has defined benefit plans mainly comprising a corporate pension fund and a lump-sum retirement benefit plan. Under the corporate pension fund, employees can receive a lump-sum payment based on the number of accumulated points received during their years of service. Employees with over a certain period of service can receive part of or all of the payment as certain annuity or life annuity. Under the lump-sum retirement benefit plan, employees can receive a lump-sum payment based on the number of accumulated points received during their years of service. A retirement benefit trust has been established for the lump-sum retirement benefit plan. Certain employees may be entitled to additional special retirement benefits apart from the defined benefit plans based on the conditions under which termination occurs.

The corporate pension fund and retirement benefit plan trust are independent of the Group and are funded only by payments from the Group.

A pension asset management strategy is developed to optimize expected returns and to manage risks through adopting investment strategies from a long-term perspective. For this purpose, the Group focusses on long-term objectives which are not influenced by fluctuations in short-term yields, and maintains a well-diversified portfolio.

The funding status is closely monitored at the corporate level and valuations at the balance sheet date are carried out annually. Although the financial position of the Group's pension fund is assessed to be sound, the Group has introduced risk-based contributions to prepare for risks that may arise in the future.

The defined benefit obligation is calculated using the projected unit credit method. If potential assets arise since defined benefit plans are over-funded, the recognition of pension assets is limited to the present value of any economic benefits available from refunds from the plans or reductions in future contributions to the plan.

Defined benefit plans: income statement in millions of yen

	2022	2021
Current service cost	4,721	4,316
Total operating expenses	**4,721**	**4,316**
Net interest cost of defined benefit plans	1	(1)
Total expense recognized in income statement	**4,723**	**4,315**

Defined benefit plans: funding status in millions of yen

	December 31, 2022	December 31, 2021
Fair value of plan assets	86,118	95,996
Defined benefit obligation	(84,256)	(97,614)
Over (under) funding	**1,861**	**(1,618)**
Defined benefit plan assets	5,172	1,327
Defined benefit plan liabilities	(3,311)	(2,945)
Net recognized asset (liability)	**1,861**	**(1,618)**

Defined benefit plans: fair value of plan assets in millions of yen

	2022	2021
At January 1	95,996	93,649
Interest income on plan assets	555	616
Remeasurements on plan assets	(8,851)	2,037
Currency translation effects	11	3
Employer contributions	3,405	3,342
Benefits paid – funded plans	(4,998)	(3,651)
At December 31	**86,118**	**95,996**
Composition of plan assets		
- Equity securities	13,611	16,553
- Debt securities	54,736	60,804
- Cash and cash equivalents	5,206	7,255
- Other investments	12,565	11,384
Total plan assets	**86,118**	**95,996**

Equity securities and debt securities have quoted market prices (Level 1 of fair value hierarchy).

In 2022, in addition to the provision of standard contributions, a contribution of ¥1,293 million (2021: ¥1,232 million) was made to the corporate pension fund as a risk-based contribution.

Defined benefit plans: present value of defined benefit obligation in millions of yen

	2022	2021
At January 1	97,614	95,440
Current service cost	4,721	4,316
Interest cost	556	616
Remeasurements – demographic assumption	1	6
Remeasurements – financial assumptions	(13,338)	1,077
Remeasurements – experience adjustments	123	113
Currency translation effects	25	19
Benefits paid – funded plans	(5,335)	(3,973)
Other	(112)	-
At December 31	**84,256**	**97,614**
Duration in years	14.1	15.2

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible estimates of variables that determine the ultimate cost of providing post-employment benefits. They are set on an annual basis by the responsible departments of the Group based on advice from actuaries. Actuarial assumptions consist of demographic assumptions on matters such as mortality and employee turnover, and financial assumptions on matters such as interest rates.

Demographic assumptions: Demographic assumptions relate to mortality and employee turnover rates. Mortality rates are based on the standard mortality rate stated in the Ordinance for Enforcement of the Defined-Benefit Corporate Pension Act. Rates of employee turnover are based on historical behavior within the Group companies.

Financial assumptions: Discount rates are determined mainly with reference to interest rates on high-quality corporate bonds and reflect the period over which the obligations are to be settled.

	December 31, 2022	December 31, 2021
Discount rate (%)	1.57	0.59

Defined benefit plans: sensitivity of defined benefit obligation to actuarial assumption in millions of yen
The impact resulting from changes of actuarial assumption on the defined benefit obligation is shown in the table below. It is based on the assumption that variables other than the stated assumption used for the calculation are held constant.

	2022
Discount rate	
- 0.25% increase	(2,801)
- 0.25% decrease	2,973
Life expectancy	
- 1 year increase	1,895

Future cash flows
Based on the most recent actuarial valuations, the Group expects that employer contributions for defined benefit plans in 2023 will be approximately ¥2,070 million.

24. Equity compensation plans

The Group operates equity-settled equity compensation plans for directors and certain employees. IFRS 2 “Share-based Payment” requires that the value of share-based payments be estimated based on the fair value at grant date and recorded as an expense over the vesting period. Effective since 2017, for the purpose of further promoting shared value with shareholders and providing an incentive to sustainably increase the Group’s corporate value, strengthening linkage between compensation and mid- to long-term business performance, a restricted stock compensation plan (the “Compensation Plan”) was introduced in place of the existing stock option compensation plans.

Expenses for equity compensation plans in millions of yen

	2022	2021
Cost of sales	5	2
Marketing and distribution	24	23
Research and development	85	61
General and administration	231	237
Total	**346**	**322**
Equity-settled plans		
- Chugai common stock options	-	-
- Chugai stock options as stock-based compensation	-	-
- Tenure-based restricted stock	278	228
- Performance-based restricted stock	68	94

Cash inflow from equity compensation plans in millions of yen

	2022	2021
Equity-settled plans		
- Exercises of Chugai common stock options	241	322
- Exercises of Chugai stock options as stock-based compensation	0	-

(1) Stock options

Chugai common stock options

The Group has issued stock acquisition rights to directors and certain employees as common stock options since 2003. Each right entitles the holder to purchase 300 Chugai shares at a specified exercise price. The rights are non-tradable and have an exercise period of around ten years after receiving the rights under the condition of approximately two years of continuous service of the holder after the grant date.

Effective July 1, 2020, Chugai implemented a three-for-one stock split of its common stock. Accordingly, the number of shares allotted per stock acquisition right is adjusted to the number that reflects the stock split.

Chugai common stock options – movement in number of rights outstanding

	2022		2021	
	Number of rights	Weighted average exercise price (yen)	Number of rights	Weighted average exercise price (yen)
Outstanding at January 1	2,636	336,392	3,824	316,132
Granted	-	-	-	-
Forfeited	-	-	-	-
Exercised	(785)	306,611	(1,188)	271,176
Expired	(85)	152,800	-	-
Outstanding at December 31	**1,766**	**358,467**	**2,636**	**336,392**
- of which exercisable	1,766	358,467	2,636	336,392

Chugai common stock options – terms of rights outstanding at December 31, 2022

	Rights outstanding			Rights exercisable	
Year of grant	Number outstanding	Weighted average years remaining contractual life	Weighted average exercise price (yen)	Number exercisable	Weighted average exercise price (yen)
2013	64	0.32	250,000	64	250,000
2014	327	1.31	267,400	327	267,400
2015	557	2.31	400,700	557	400,700
2016	818	3.31	374,600	818	374,600
Total	**1,766**	**2.51**	**358,467**	**1,766**	**358,467**

Chugai stock options as stock-based compensation

The Group has issued stock acquisition rights to directors as stock options as stock-based compensation since 2009 in lieu of the retirement benefit system for directors which was abolished. Each right entitles the holder to purchase 300 Chugai shares at an exercise price of ¥300. The rights are non-tradable and have an exercise period of 30 years after receiving the rights, which may be vested upon the holder's retirement as a director of Chugai.

Effective July 1, 2020, Chugai implemented a three-for-one stock split of its common stock. Accordingly, the number of shares allotted per stock acquisition right is adjusted to the number that reflects the stock split.

Chugai stock options as stock-based compensation – movement in number of rights outstanding

	2022		2021	
	Number of rights	Weighted average exercise price (yen)	Number of rights	Weighted average exercise price (yen)
Outstanding at January 1	1,282	300	1,282	300
Granted	-	-	-	-
Forfeited	-	-	-	-
Exercised	(1,282)	300	-	-
Expired	-	-	-	-
Outstanding at December 31	**-**	**-**	**1,282**	**300**
- of which exercisable	-	-	-	-

Exercise of stock acquisition rights

	2022		2021	
	Number of rights	Weighted average share price (yen)	Number of rights	Weighted average share price (yen)
Chugai common stock options	785	3,819	1,188	4,543
Chugai stock options as stock-based compensation	1,282	3,903	-	-

(2) Restricted stock compensation plan

Under the Compensation Plan, the restricted stocks to be provided consist of "tenure-based restricted stock" for Eligible Directors, as well as certain employees, which requires continuous service for a certain period for the Group, and "performance-based restricted stock" for only Eligible Directors which requires the attainment of Chugai's mid- to long-term business performance target in addition to the aforementioned continuous service. The Eligible Directors and employees, shall make in–kind contribution of all monetary compensation claims or monetary claims to be provided by Chugai according to the Compensation Plan, and shall, in return, receive shares of common stock of Chugai that will be issued or disposed of by Chugai.

For the disposal of shares of common stocks of Chugai under the Compensation Plan, Chugai and each Eligible Directors and employees, shall make an agreement on allotment of restricted stocks including that (1) The Eligible Directors and employees, shall not transfer, create a security interest on, or otherwise dispose of the allotted shares during a certain restriction period, and (2) Chugai shall take back all or part of the allotted shares without cost in case where certain events happen.

Number of shares allotted and fair value at the grant date by year

Year		Tenure-based restricted stock	Performance-based restricted stock
2017	Number of shares allotted	224,700 shares	144,300 shares
	Fair value at the grant date	1,273 yen	970 yen
2018	Number of shares allotted	121,800 shares	59,100 shares
	Fair value at the grant date	1,800 yen	1,286 yen
2019	Number of shares allotted	88,500 shares	40,200 shares
	Fair value at the grant date	2,567 yen	1,768 yen
2020	Number of shares allotted	68,400 shares	29,700 shares
	Fair value at the grant date	3,867 yen	4,221 yen
2021	Number of shares allotted	61,000 shares	35,600 shares
	Fair value at the grant date	4,456 yen	3,183 yen
2022	Number of shares allotted	63,300 shares	28,000 shares
	Fair value at the grant date	4,158 yen	3,057 yen

Effective July 1, 2020, Chugai implemented a three-for-one stock split of its common stock. Regarding the restricted stocks granted prior to the stock split, the number of shares allotted and the fair value at the grant date presents the amount after adjustments reflecting the stock split.

Overview of the Compensation Plan

	Tenure-based restricted stock	Performance-based restricted stock
Evaluation method	Market price	Monte Carlo simulation
Allottees	Directors of Chugai Employees of Chugai Directors of Chugai's subsidiaries Employees of Chugai's subsidiaries	Directors of Chugai
Settlement method	Equity settlement	
Transfer restriction period	3 years	
Conditions for releasing transfer restriction	On the condition that the Eligible Directors, vice presidents and employees of the Group maintain their positions continuously during the transfer restriction period, Chugai shall release the transfer restriction for all of the allotted shares at the expiration of the transfer restriction period.	On the condition that the Eligible Directors maintain their positions continuously during the transfer restriction period, Chugai shall release the transfer restriction for the number of allotted shares, which is calculated by multiplying the number of shares that the Eligible Directors obtain at the expiration of the transfer restriction period by the release rate that is determined by the growth rate on the three-year (the "Evaluation Period") Total Shareholders Return (TSR) for a peer group as a performance goal decided by the Board of Directors in advance. The release rate is applied against the number of shares that is provided at the beginning of the restriction period by multiplying the maximum coefficient of 150%, ranging from 0% to 150% separately set by Chugai's Board, and is set from 0% to 100%.

The TSR calculation formula is as follows:

TSR = (Increase in the stock price during the Evaluation Period (B-A) + Dividends during the Evaluation Period) ÷ Initial stock price (A)

A: Initial stock price (Average closing price for the three months prior to the start of the Evaluation Period)
B: Final stock price (Average closing price for the three months prior to the end of the Evaluation Period)

25. Earnings per share

Basic earnings per share

	2022	2021
Net income attributable to Chugai shareholders (millions of yen)	**374,429**	**302,995**
Weighted average number of common stock	1,679,057,667	1,679,057,667
Weighted average number of own equity instruments	(34,259,939)	(34,907,198)
Weighted average number of shares in issue	**1,644,797,728**	**1,644,150,469**
Basic earnings per share (yen)	**227.64**	**184.29**

Diluted earnings per share

	2022	2021
Net income attributable to Chugai shareholders (millions of yen)	**374,429**	**302,995**
Weighted average number of shares in issue	1,644,797,728	1,644,150,469
Adjustment for assumed exercise of equity compensation plans, where dilutive	540,204	1,078,764
Weighted average number of shares in issue used to calculate diluted earnings per share	**1,645,337,932**	**1,645,229,233**
Diluted earnings per share (yen)	**227.57**	**184.17**

There were no rights in equity compensation plans, which are anti-dilutive, and therefore excluded from the calculation of diluted earnings per share (2021: none).

26. 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

	2022	2021
Net income	374,429	302,995
Financing costs	61	48
Other financial (income) expense	(52)	(76)
Other expense	2,134	2,540
Income taxes	156,737	116,390
Operating profit	**533,309**	**421,897**
Depreciation of property, plant and equipment	23,690	20,974
Depreciation of right-of-use assets	4,717	5,890
Amortization of intangible assets	3,027	4,004
Impairment of property, plant and equipment	8	-
Impairment of intangible assets	633	6,342
Operating expense for defined benefit plans	4,721	4,316
Operating expense for equity-settled equity compensation plans	344	322
Net (income) expense for provisions	1,627	2,589
Inventory write-downs	2,482	1,350
Other adjustments	1,317	2,683
Cash generated from operations	**575,875**	**470,367**

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

	2022	2021
Interest received	278	131
Dividends received	3	3
Total	**281**	**133**

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 (2021: none).

27. Risk management

(1) Financial risk management
The Group is exposed to various financial risks arising from its underlying operations and corporate finance activities. The Group's financial risk exposures are predominantly related to changes in foreign exchange rates, interest rates and equity prices as well as the creditworthiness and the solvency of the Group's counterparties.

Financial risk management within the Group is governed by policies approved by the Board of Directors of Chugai. These policies cover credit risk, liquidity risk and market risk. The policies provide guidance on risk limits, type of authorized financial instruments and monitoring procedures. Policy implementation and day-to-day risk management are carried out by the relevant functions and regular reporting on these risks is performed by the relevant finance & accounting and controlling functions within Chugai.

1) Credit risk
Accounts receivable are exposed to customer credit risk. The main accounts receivable are trade receivables. The management of trade receivables is focused on the assessment of country risk, setting of credit limits, ongoing credit evaluation and account monitoring procedures. As part of the credit risk management, sales administration departments regularly monitor the financial position of major customers by checking payment term and balances of trade receivables for each customer according to the accounting manuals to ensure early identification and mitigation of overdue balances and potential bad debts associated with the deterioration of customers' financial position.

The objective of the management of trade receivables is to sustain the growth and profitability of the Group by optimizing asset utilization while maintaining risks at an acceptable level. The Group obtains credit insurance and similar enhancements when appropriate to protect the collection of trade receivables. No material collateral was held for trade receivables (2021: none).

Of the Group's accounts receivable, trade receivables from third parties are mainly to Japanese customers, of which major customers account for 84% as of December 31, 2022.

Trade receivables: major customers in millions of yen

	December 31, 2022	December 31, 2021
Ministry of Health, Labour and Welfare, Japan	157,130	38,074
Alfresa Corporation	27,142	29,303
Suzuken Co., Ltd.	20,211	21,474
Mediceo Corporation	18,653	20,794
S.D. COLLABO CO., LTD.	12,127	10,185
Toho Pharmaceutical Co., Ltd.	10,637	12,088
Total	**245,900**	**131,919**

Customer credit risk exposure based on accounts receivable days overdue that are within the scope of IFRS 15 in millions of yen

	Current	Overdue 1-3 months	Overdue 4-12 months	Overdue more than 1 year	Credit impaired	Total
At December 31, 2022						
Gross carrying amount	479,018	125	6	-	-	479,149
- Expected credit loss rate (%)	0	1	0	-	-	0
Allowance for doubtful accounts	(19)	(1)	-	-	-	(20)

	Current	Overdue 1-3 months	Overdue 4-12 months	Overdue more than 1 year	Credit impaired	Total
At December 31, 2021						
Gross carrying amount	329,590	149	1	-	-	329,740
- Expected credit loss rate (%)	0	0	0	-	-	0
Allowance for doubtful accounts	(17)	(0)	-	-	-	(17)

The expected credit loss ('ECL') rate is based on the Group's historical experience and the Group's expectation of economic conditions over the period until receivables are expected to be paid.

Derivative transactions and money market instruments are restricted to financial institutions with high credit ratings in an effort to mitigate the counterparty risks.

The maximum exposure to credit risk resulting from financial activities, without taking into account any collateral held or other credit enhancements, is equal to the carrying value of the Group's financial assets.

Financial assets with credit risks (excluding accounts receivables that result from transactions that are within the scope of IFRS 15)
Cash and cash equivalents are held with banks and financial institutions, which are predominantly rated investment grade, based on Moody's and S&P Ratings. Cash and short-term time deposits are subject to rules which limit the Group's exposure to individual financial institutions.

Investments in marketable securities (excluding equity securities) are entered into on the basis of guidelines with regard to liquidity, quality and maximum amount. As a general rule, the Group invests only in high-quality securities with adequate liquidity and with counterparties that have a credit rating of at least Baa3 from Moody's and BBB- from S&P.

Credit risk on accounts receivables that result from transactions that are not within the scope of IFRS 15 are managed based on data obtained from external sources and historical experience.

The credit risk of the counterparties with external ratings below investment grade or non-rated is closely monitored and reviewed on an individual basis.

Rating analysis (excluding accounts receivables that result from transactions that are within the scope of IFRS 15) in millions of yen

	2022		
	Total	Fair value through OCI (12-month ECL)	Amortized costs (12-month ECL)
AAA~BBB- range	515,995	254,986	261,009
Total investment grade	**515,995**	**254,986**	**261,009**
Below BBB- range (below investment grade)	759	759	-
Unrated	21,336	150	21,186
Total gross carrying amounts	**538,089**	**255,895**	**282,195**
Loss allowance	0	-	0

	2021		
	Total	Fair value through OCI (12-month ECL)	Amortized costs (12-month ECL)
AAA~BBB- range	495,565	199,989	295,575
Total investment grade	**495,565**	**199,989**	**295,575**
Below BBB- range (below investment grade)	774	774	-
Unrated	3,483	150	3,333
Total gross carrying amounts	**499,822**	**200,914**	**298,909**
Loss allowance	0	-	0

Financial assets measured at amortized cost and those at fair value through OCI (excluding equity securities) are investment grade and therefore considered to be low risk, and thus the impairment allowance is measured at 12 months expected credit losses ('ECL') with a reference to external credit ratings of the counterparties. There were no financial assets for which the Group observed a significant increase in the credit risk which would require the application of the lifetime expected credit losses impairment model. In addition, there were no material movements in the loss allowance in 2022.

2) Liquidity risk
Liquidity risk arises through a surplus of financial obligations over available financial assets due at any point in time. The Group's approach to liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Group manages liquidity risks based on a cash management plan prepared and updated as appropriate by finance and accounting departments based on the reporting from each department.

Chugai is rated as highly creditable by more than one major credit rating agency. The ratings will permit efficient access to the international capital markets in the event of major financing requirements.

Contractual maturities of financial liabilities in millions of yen

	Total	Less than 1 year	1-2 years	Over 2 years
At December 31, 2022				
Accounts payable	209,835	209,835	-	-
Other current liabilities				
- Derivative financial instruments*	46,492	45,224	1,268	-
Total financial liabilities	**256,328**	**255,059**	**1,268**	**-**
At December 31, 2021				
Accounts payable	152,266	152,226	40	-
Other current liabilities				
- Derivative financial instruments*	23,110	19,213	3,897	-
Total financial liabilities	**175,377**	**171,439**	**3,938**	**-**

*Derivative financial instruments are held for risk management purposes and there is no intention to cancel before the maturity date.

The period categories in the table above were changed from the current year, and maturities less than 1 year are now summarized into one category.
The maturity analysis of lease liabilities is shown in Note 8.

3) Market risk
Market risk arises from changing market prices, mainly due to foreign exchange rates and interest rates, of the Group's financial assets or financial liabilities which affect the Group's net income and equity.

Foreign exchange risk: Accounts receivable and accounts payable denominated in foreign currencies are exposed to foreign exchange risk. The objective of the Group's foreign exchange risk management activities is to preserve the economic value of its current and future assets and to minimize the volatility of the Group's financial result. The Group enters into derivative transactions such as foreign exchange forward contracts to reduce the risk of foreign currency exchange fluctuations related to both assets and liabilities denominated in foreign currencies. Some of these transactions qualify as cash flow hedges at the point that the forecast transaction is expected.

When making use of derivatives for hedging foreign exchange risk on assets and liabilities denominated in foreign currencies, Chugai conducts such operations in accordance with its internal regulations and monthly reports are prepared on the balance of such transactions, valuation gains and losses, and other related matters at fair value. Consolidated subsidiaries do not utilize derivative transactions.

Sensitivity analysis: Chugai has financial instruments denominated in currencies other than its functional currency. The table below shows the impact on profit before taxes resulting from a 1% decrease of the Swiss franc, euro and US dollar against the Japanese yen, which is Chugai's functional currency. All calculations are based on the assumption that exchange rates for other currencies are constant and there are no changes in other variables such as interest rates.

Foreign currency sensitivity analysis

	2022	2021
Year-end exchange rate (yen per each currency)		
CHF	144.08	125.95
EUR	141.81	130.31
USD	133.02	115.07
Profit before taxes (millions of yen)		
CHF	1,909	1,936
EUR	(160)	25
USD	(824)	(543)

Positive numbers are the amount of positive impact on profit before taxes resulting from a 1% decrease of each currency against the Japanese yen. The amounts above do not reflect the impact on Chugai's cash flows or forecast result.

The impact resulting from a 1% decrease of each currency against the Japanese yen on the financial instruments denominated in foreign currency is shown in the tables below.

	2022			2021		
	Exposure (m CHF)	Exposure (m YEN)	Impact (m YEN)	Exposure (m CHF)	Exposure (m YEN)	Impact (m YEN)
CHF						
Accounts receivable	1,341	193,264	(1,933)	1,331	167,659	(1,677)
Accounts payable	(818)	(117,898)	1,179	(614)	(77,352)	774
Financial non-current assets and other non-current assets	-	-	-	-	-	-
Cash and cash equivalents	-	-	-	27	3,339	(33)
Notional amounts of derivative financial instruments						
- Derivatives designated as hedges	(2,122)	(266,109)	2,661	(2,500)	(299,332)	2,993
- Derivatives not designated as hedges	-	(191)	2	98	12,042	(120)
Total	**(1,599)**	**(190,934)**	**1,909**	**(1,659)**	**(193,643)**	**1,936**

	Exposure (m EUR)	Exposure (m YEN)	Impact (m YEN)	Exposure (m EUR)	Exposure (m YEN)	Impact (m YEN)
EUR						
Accounts receivable	5	734	(7)	4	559	(6)
Accounts payable	(240)	(34,094)	341	(243)	(31,708)	317
Financial non-current assets and other non-current assets	56	7,889	(79)	70	9,122	(91)
Cash and cash equivalents	150	21,272	(213)	145	18,895	(189)
Notional amounts of derivative financial instruments						
- Derivatives designated as hedges	-	-	-	-	-	-
- Derivatives not designated as hedges	145	20,226	(202)	5	641	(6)
Total	**115**	**16,026**	**(160)**	**(19)**	**(2,491)**	**25**

	Exposure (m USD)	Exposure (m YEN)	Impact (m YEN)	Exposure (m USD)	Exposure (m YEN)	Impact (m YEN)
USD						
Accounts receivable	2	321	(3)	31	3,528	(35)
Accounts payable	(228)	(30,384)	304	(206)	(23,751)	238
Financial non-current assets and other non-current assets	13	1,748	(17)	-	-	-
Cash and cash equivalents	25	3,325	(33)	25	2,877	(29)
Notional amounts of derivative financial instruments						
- Derivatives designated as hedges	691	90,695	(907)	564	62,867	(629)
- Derivatives not designated as hedges	130	16,721	(167)	78	8,818	(88)
Total	**633**	**82,426**	**(824)**	**491**	**54,339**	**(543)**

Interest rate risk: There were no debt and loans at December 31, 2022 and given the nature of leases and the current low interest rate environment, the Group is not exposed to material interest rate risk.

(2) Financial instruments

Carrying value and fair value of financial instruments

The Group's financial instruments are mainly comprised of financial non-current assets, debt instruments included in other non-current assets, accounts receivable, marketable securities, cash and cash equivalents, derivative financial instruments included in other current assets, accounts payable, derivative financial instruments included in other current liabilities, debt and lease liabilities included in other non-current liabilities and other current liabilities. The carrying values of these financial instruments are equal to or reasonable approximates of fair values. Disclosure of the fair value of lease liabilities are not required.

Accounting classifications and fair values in millions of yen

	Financial assets measured at fair value through OCI	Fair value -hedging instruments	Financial assets measured at fair value through profit or loss	Financial assets measured at amortized cost	Financial liabilities measured at fair value through profit or loss	Other financial liabilities	Total
At December 31, 2022							
Non-current financial assets							
- Equity instrument	1,837	-	-	-	-	-	1,837
Other non-current assets							
- Debt instrument	-	-	9,637	-	-	-	9,637
Accounts receivable	-	-	-	512,538	-	-	512,538
Marketable securities							
- Debt instrument	5,906	-	-	-	-	-	5,906
- Money market instruments	249,988	-	-	-	-	-	249,988
- Time accounts over 3 months	-	-	-	25,044	-	-	25,044
Cash and cash equivalents	-	-	-	222,169	-	-	222,169
Other current assets							
- Derivative financial instruments	-	7,288	573	-	-	-	7,861
Total financial assets	**257,731**	**7,288**	**10,210**	**759,750**	**-**	**-**	**1,034,980**
Accounts payable	-	-	-	-	-	209,835	209,835
Other current liabilities							
- Derivative financial instruments	-	46,171	321	-	-	-	46,492
Total financial liabilities	**-**	**46,171**	**321**	**-**	**-**	**209,835**	**256,327**

	Financial assets measured at fair value through OCI	Fair value -hedging instruments	Financial assets measured at fair value through profit or loss	Financial assets measured at amortized cost	Financial liabilities measured at fair value through profit or loss	Other financial liabilities	Total
At December 31, 2021							
Non-current financial assets							
- Equity instrument	2,393	-	-	-	-	-	2,393
Other non-current assets							
- Debt instrument	-	-	9,383	-	-	-	9,383
Accounts receivable	-	-	-	355,081	-	-	355,081
Marketable securities							
- Debt instrument	924	-	-	-	-	-	924
- Money market instruments	199,989	-	-	-	-	-	199,989
- Time accounts over 3 months	-	-	-	3,303	-	-	3,303
Cash and cash equivalents	-	-	-	267,753	-	-	267,753
Other current assets							
- Derivative financial instruments	-	8,769	464	-	-	-	9,233
Total financial assets	**203,307**	**8,769**	**9,847**	**626,137**	**-**	**-**	**848,060**
Accounts payable	-	-	-	-	-	152,266	152,266
Other current liabilities							
- Derivative financial instruments	-	23,110	-	-	-	-	23,110
Total financial liabilities	**-**	**23,110**	**-**	**-**	**-**	**152,266**	**175,376**

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2 – observable inputs directly or indirectly other than quoted prices in active markets for identical assets and liabilities.
- Level 3 – fair value measured using valuation method which includes unobservable inputs.

Fair value hierarchy of financial instruments in millions of yen

	Level 1	Level 2	Level 3	Total
At December 31, 2022				
Marketable securities:				
- Money market instruments	-	249,988	-	249,988
- Debt securities	5,756	-	150	5,906
Other current assets				
- Derivative financial instruments	-	7,861	-	7,861
Financial non-current assets				
- Equity instruments measured at fair value through OCI	241	-	1,596	1,837
Other non-current assets				
- Debt instrument	-	7,889	1,748	9,637
Financial assets recognized at fair value	**5,997**	**265,738**	**3,494**	**275,230**
Other current liabilities				
- Derivative financial instruments	-	46,492	-	46,492
Financial liabilities recognized at fair value	**-**	**46,492**	**-**	**46,492**

	Level 1	Level 2	Level 3	Total
At December 31, 2021				
Marketable securities:				
- Money market instruments	-	199,989	-	199,989
- Debt securities	774	-	150	924
Other current assets				
- Derivative financial instruments	-	9,233	-	9,233
Financial non-current assets				
- Equity instruments measured at fair value through OCI	241	-	2,152	2,393
Other non-current assets				
- Debt instrument	-	8,926	457	9,383
Financial assets recognized at fair value	**1,015**	**218,148**	**2,760**	**221,923**
Other current liabilities				
- Derivative financial instruments	-	23,110	-	23,110
Financial liabilities recognized at fair value	**-**	**23,110**	**-**	**23,110**

Level 1 financial assets consist of corporate bonds and quoted shares. Level 2 financial assets consist primarily of certificates of deposit, cash in trust, commercial paper and derivative financial instruments.

Fair values of Level 2 financial assets are measured as follows:

• Marketable securities, debt securities and derivative financial instruments are based on valuation models that use observable market data for interest rates, yield curves, foreign exchange rates and implied volatilities for similar instruments at the measurement date.

The Group recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred. There were no significant transfers between Level 1 and Level 2 and vice versa.

Level 3 financial assets mainly consist of unquoted shares. Valuation is based on valuation method which includes unobservable inputs.

Reconciliation of financial instruments classified into level 3 in millions of yen

	Fair value through other comprehensive income	Fair value through profit or loss	Total
At January 1, 2021	2,304	188	2,493
Gains or losses	1	-	1
Purchases	-	248	248
Disposals	(4)	-	(4)
Transfers	-	-	-
Currency translation effects	-	21	21
At December 31, 2021	**2,302**	**457**	**2,760**
At January 1, 2022	2,302	457	2,760
Gains or losses	(16)	894	877
Purchases	-	321	321
Disposals	(540)	-	(540)
Transfers	-	-	-
Currency translation effects	-	76	76
At December 31, 2022	**1,746**	**1,748**	**3,494**

Derecognition of FVTOCI equity investments

The fair value at the date of derecognition, cumulative gain or loss on disposal, and dividends recognized related to investments derecognized as a result of disposal of FVTOCI equity investments during the year, are as follows:

	December 31, 2022	December 31, 2021
Fair value at the date of derecognition	151	28
Cumulative gain or loss	0	28
Dividends	2	0

These are mainly stock divestments as a result of specifically assessing matters such as the appropriateness of the shareholding, the capital efficiency in relation to the shareholding, and the rationale of the relevant transactions.

The cumulative gain or loss on disposal is before tax effect, and amounts transferred from other reserves to retained earnings is ¥0 million (2021: ¥21 million).

(3) Derivative financial instruments

Derivative financial instruments in millions of yen

Assets	December 31, 2022	December 31, 2021
Forward exchange contracts	7,861	9,233
Total	**7,861**	**9,233**

Liabilities	December 31, 2022	December 31, 2021
Forward exchange contracts	(46,492)	(23,110)
Total	**(46,492)**	**(23,110)**

Hedge accounting

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments at each reporting date to ensure that an economic relationship exists between the hedged item and hedging instrument. The Group performs a qualitative assessment of the hedge effectiveness, and the Group concludes that risks being hedged for the hedged items and the hedging instruments are sufficiently aligned.

The Group manages foreign exchange rate fluctuation risks by entering into cash flow hedges for which hedge accounting is applied, and an ineffective portion may occur when the volume of hedged items is lower than the hedged amount. The ineffective portion of the hedges is recognized in the income statement and included in other financial income (expense). Hedge effectiveness is measured using the hypothetical derivative method for cash flow hedges. In 2022 and 2021, there was no actual ineffectiveness reported for any hedge accounting relationships. Furthermore, in 2022 and 2021, there were no hedging relationships for which hedge accounting is no longer applied.

The table below shows fair values and nominal amounts of derivative financial instruments, including a range of the timing of the nominal amounts of the hedging instruments, which are designated as hedging instruments in a cash flow hedge. At December 31, 2022, the Group has the following cash flow hedges which are designated in a qualifying hedge relationship.

Cash flow hedges

	Nominal amount	Fair value in million yen		Maturity range
		Asset	Liability	
Risk hedged:				
Foreign exchange rate fluctuations				
- Forward exchange contracts	CHF 6,012 million	5,574	(43,025)	2023-2024
	USD 691 million	1,714	(3,146)	2023-2024
Total		**7,288**	**(46,171)**	

The Group is exposed to foreign exchange risk from transactions for inventories and other transactions in foreign currencies with foreign related parties. The Group has entered into foreign exchange forward contracts to hedge a part of foreign exchange risk. Such instruments are recorded as fair value assets of ¥(38,883) million (2021: fair value assets of ¥(14,341) million).

Reconciliation of hedging reserves in equity in millions of yen

	Forward exchange contracts
At January 1, 2022	(4,624)
Effective portion of fair value gains (losses) taken to equity	(32,770)
Transferred to income statement	50,206
Transferred to initial carrying amount of hedged items	(30,040)
Income taxes	3,846
At December 31, 2022	**(13,383)**

The present value of expected cash flows from qualifying cash flow hedges is shown in the table below.

Present value of expected cash flows of qualifying cash flow hedges in millions of yen

	Total	0-6 months	7-12 months	Over 1 Year
Year ended December 31, 2022				
Cash inflows	371,822	205,415	125,869	40,538
Cash outflows	(584,688)	(317,143)	(200,642)	(66,903)
Total cash inflow (outflow)	**(212,866)**	**(111,728)**	**(74,773)**	**(26,365)**
Year ended December 31, 2021				
Cash inflows	723,047	281,878	313,696	127,472
Cash outflows	(737,387)	(290,252)	(317,437)	(129,699)
Total cash inflow (outflow)	**(14,341)**	**(8,373)**	**(3,741)**	**(2,227)**

(4) Capital management

The Group defines the capital that it manages as the Group's total capitalization, being the equity including non-controlling interests. The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern, so that it can continue to provide benefits for patients and returns to investors.
- To provide an adequate return to investors based on the level of risk undertaken.
- To have available the necessary financial resources to allow the Group to invest in areas that may deliver future benefits for patients and returns to investors.
- To maintain sufficient financial resources to mitigate against risks and unforeseen events.

Capitalization is monitored and reported to the CFO as part of the Group's regular internal management reporting.

The Group is not subject to regulatory capital adequacy requirements.

Capital in millions of yen

	December 31, 2022	December 31, 2021
Capital and reserves attributable to Chugai shareholders	1,424,387	1,188,017
Equity attributable to non-controlling interests	-	-
Capitalization	**1,424,387**	**1,188,017**

28. Related parties

(1) Controlling shareholder

Effective October 1, 2002, the Roche Group and Chugai completed 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 became a 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 in transactions 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. If this occurs, Roche has the pre-emptive right to acquire the shares in order to maintain its current and future shareholding ratio in Chugai.

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 advanced 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 and 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 ¥84,476 million (2021: ¥60,340 million).

(2) Material transactions and balances with related parties

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

	2022	2021
Revenues	482,737	450,217
Purchases	398,245	219,314

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

	December 31, 2022	December 31, 2021
Accounts receivable	194,485	172,112
Trade accounts payable	121,185	81,648

(3) Remuneration of key management personnel

Remuneration to the members of the Board of Directors and the Audit & Supervisory Board in millions of yen

	2022	2021
Board of Directors		
- Regular remuneration	243	274
- Bonuses	140	169
- Tenure-based restricted stock compensation plan	65	78
- Performance-based restricted stock compensation plan	68	94
Total	**516**	**615**
Audit & Supervisory Board		
- Regular remuneration	101	99
Total	**101**	**99**

29. Subsidiaries

Subsidiaries	Country of incorporation	Equity interest %	
		2022	2021
Consolidated subsidiaries			
Chugai Research Institute for Medical Science, Inc.	Japan	100	100
Chugai Clinical Research Center Co., Ltd.	Japan	100	100
Chugai Business Solution Co., Ltd.	Japan	100	100
Chugai Pharma Manufacturing Co., Ltd.	Japan	100	100
Chugai Pharma USA, Inc.	United States	100	100
Chugai Pharma Europe Ltd.	United Kingdom	100	100
Chugai Pharma U.K. Ltd.	United Kingdom	100	100
Chugai Pharma Germany GmbH	Germany	100	100
Chugai Pharma France S.A.S.	France	100	100
Chugai Pharma Europe Logistics S.A.S.	France	100	100
Chugai Pharma Taiwan Ltd.	Taiwan	100	100
Chugai Pharma Science (Beijing) Co., Ltd.	China	100	100
Chugai Pharma China Co., Ltd.	China	100	100
Chugai Pharma Technology Taizhou Co., Ltd.	China	100	100
Chugai Pharmabody Research Pte. Ltd.	Singapore	100	100

Chugai Pharma China Co., Ltd. and Chugai Pharma Science (Beijing) Co., Ltd. were integrated in April 2022 with the former as the surviving company and the latter was liquidated in February 2023.

30. Subsequent events

There were no significant subsequent events for the year ended December 31, 2022.

Additional information

This additional information is provided for the benefit of readers and does not form part of the consolidated financial statements.

1. Significant legal cases

At December 31, 2022, the Group is involved in the following significant legal cases for which the outcome cannot be determined at this time, but for which the Group assesses that the possibility of any settlement to be remote:

(1) Patent infringement lawsuit (in US) regarding Emicizumab
Baxalta Incorporated and Baxalta GmbH (collectively, "Baxalta") filed a lawsuit against Chugai and Genentech Inc. ("Genentech") in the US District Court for the District of Delaware (the "Court") on May 4, 2017 (the date of the complaint, US time hereafter), alleging that Genentech and Chugai's manufacture, use, sale, offer for sale or import of emicizumab (development code name: ACE910) into the United States would infringe Baxalta's US patent No. 7,033,590 and seeking a patent infringement judgment, injunctive and monetary relief and attorney fees. Baxalta filed a stipulation of dismissal with prejudice regarding Baxalta's claims against Chugai with the Court on September 13, 2018, and the Court issued an order dismissing Chugai from this lawsuit on September 19, 2018. The Court also entered a judgment in favor of Genentech on February 1, 2019. Given this, Baxalta appealed to the United States Court of Appeals for the Federal Circuit ("CAFC") on February 8, 2019. CAFC reversed the judgment of the Court and remanded the case back to the Court on August 27, 2020. Subsequently, the Court issued a summary judgement that patent-in-suit is invalid on January 13, 2022, and Baxalta appealed the Court decision to the CAFC on February 8, 2022.

(2) Patent infringement lawsuit (in US) against Alexion
Chugai alleges that the anti-C5 antibody ALXN1210 (ravulizumab) product, an investigational drug developed by Alexion Pharmaceuticals, Inc., infringes one of its U.S. patents (U.S. Patent No. 9,890,377) relating to its proprietary antibody engineering technology. Thus, Chugai filed a patent infringement lawsuit against Alexion at the United States District Court for the District of Delaware on November 15, 2018 (the date of the complaint) requesting a judgment that the ALXN1210 product infringes Chugai's U.S. patent and injunctive relief precluding manufacturing and selling of the ALXN1210 product within the U.S. Chugai filed another patent infringement lawsuit against Alexion at the United States District Court for the District of Delaware on November 12, 2019 (the date of the complaint) requesting a judgment that the ALXN1210 product infringes Chugai's U.S. patent (U.S. Patent No. 10, 472,623) and injunctive relief precluding manufacturing and selling of the ALXN1210 product within the U.S. Since a settlement agreement with Alexion was executed, the parties filed a motion to dismiss the case on March 17, 2022.

(3) Patent infringement lawsuit (in Japan) against Alexion
Chugai alleges that the anti-C5 antibody ALXN1210 (ravulizumab) product, an investigational drug sold by Alexion Pharma Godo Kaisha (Japan Regional Headquarters), infringes some of its Japan patents (Patent No. 4954326 and No. 6417431) relating to its proprietary antibody engineering technology. Thus, Chugai filed a patent infringement lawsuit against Alexion Pharma at the Tokyo District Court on December 5, 2018 (the date of the complaint) requesting a judgment that the ALXN1210 product infringes Chugai's Japan patent and injunctive relief precluding manufacturing and selling of the ALXN1210 product in Japan. Since a settlement agreement with Alexion was executed, Chugai withdrew the case on March 17, 2022.

(4) Patent infringement lawsuit (in US) against Fresenius Kabi
Fresenius Kabi USA, LLC, in concert with Fresenius Kabi Oncology Limited and Fresenius SE & Co. KGaA (collectively "Fresenius"), filed an Abbreviated New Drug Application ("ANDA") for approval of a generic version of Alecensa to the U.S. Food and Drug Administration. Under the framework of the Drug Price Competition and Patent Term Restoration Act (known as Hatch-Waxman Act), Chugai, Roche and Genentech filed a patent infringement lawsuit against Fresenius at the United States District Court for the District of Delaware on March 19, 2020 (the date of the complaint) alleging submission of ANDA infringed Chugai's U.S. Patents (Nos. 9,126,931; 9,440,922; 9,365,514 and 10,350,214). Since a settlement agreement with Fresenius was executed, the parties filed a motion to dismiss the case on August 5, 2022.

Independent auditor's report

To the Board of Directors of Chugai Pharmaceutical Co., Ltd.:

Opinion

We have audited the accompanying consolidated financial statements of Chugai Pharmaceutical Co., Ltd. and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheet as at December 31, 2022, and the consolidated income statement, statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and notes to consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Appropriateness of Chugai's judgement as to whether an impairment loss should be recognized on product intangible assets not available for use

The key audit matter	How the matter was addressed in our audit
As stated in Note 9. "Intangible assets" to the Consolidated Financial Statements, included in Intangible assets of ¥25,141 million reported on the Consolidated balance sheet of Chugai Pharmaceutical Co., Ltd. and its consolidated subsidiaries ("Chugai"), were Product intangibles not available for use of	The primary procedures we performed to assess the appropriateness of Chugai's judgement as to whether an impairment loss should be recognized on product intangible assets not available for use included the following: (1) Internal control testing

¥12,950 million, which represented approximately 0.7% of total assets. As described in Note 1. "General accounting principles and significant accounting policies, (3) Accounting policies" to the Consolidated Financial Statements, under the heading "Impairment of property, plant and equipment, right-of-use assets and intangible assets," intangible assets that are not yet available for use are tested for impairment annually. When the recoverable amount of an asset is less than its carrying value, the carrying value is reduced to its recoverable amount and this reduction is reported as an impairment loss. These assets mostly represent in-process research and development resources obtained through in-licensing arrangements or separate asset purchases and the initial business feasibility assessments were performed at the time of entering into the arrangements. However, intensifying competition in research and development has made the creation of new drugs more challenging and the cost of research and development has increased significantly. Therefore, it may not be possible to bring all intangible assets smoothly through to market from the development stage, and Chugai may have to abandon development in some cases. Accordingly, management's judgement regarding productization of projects had a significant effect on the determination as to whether an impairment loss should be recognized on product intangible assets not available for use. We, therefore, determined that our assessment of the appropriateness of Chugai's judgement as to whether an impairment loss should be recognized on product intangible assets not available for use was one of the most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	We tested the design and operating effectiveness of certain of Chugai's internal controls relevant to the determination of impairment of intangible assets not available for use. In this assessment, we focused on the controls that included consideration of the current progress of development projects in the research and development departments and changes in the product environment in determination of impairment. (2) Assessment of the appropriateness of management's judgement as to whether an impairment loss should be recognized In order to assess the appropriateness of management's judgement as to whether an impairment loss should be recognized, regarding the expectations for future development of the projects, which was used as the basis for determination of impairment, for selected projects that were over a certain threshold, among other procedures, we: ● inquired of the personnel in the research and development departments responsible for the projects about changes in product environment, such as any delay in progress of development projects, results of the clinical trials for target indications, any increase in research and development expenses, launch or market penetration of competing products and generics/biosimilars after the initial business feasibility assessment, and emergence of new technologies and therapeutics. In addition, we inspected the materials related to the portfolio management committee in which it reviewed whether to continue or discontinue certain research and development activities and whether the business feasibility assessment materials needed revision or not; and ● compared the original achievement schedules of planned milestones in the initial business feasibility assessment with the achievement status as of the fiscal year end to determine whether a significant deviation exists indicating an impairment loss should be recognized.

Appropriateness of the recognition of royalties and income from out-licensing agreements	
The key audit matter	**How the matter was addressed in our audit**
As stated in Note 2. "Operating segment information" to the Consolidated Financial Statements, included in Revenues of	The primary procedures we performed to assess the appropriateness of the recognition of royalties and

¥1,259,946 million reported on the Consolidated income statement of Chugai were Royalties and other operating income of ¥128,784 million, representing approximately 10.2% of revenues. Royalties include royalty income and income from profit-sharing arrangements with collaboration partners (“profit-sharing income”), and other operating income mainly represents income from out-licensing agreements. As described in Note 1. “General accounting principles and significant accounting policies, (3) Accounting policies, Revenue” to the Consolidated Financial Statements, sales-based or usage-based royalty income promised in exchange for a license of intellectual property is recognized based on the subsequent sale or usage of the license by customers. Profit-sharing income is recognized when underlying sales and cost of sales were recorded by collaboration partners. In addition, income from out-licensing agreements is generally recognized upon receiving upfront, milestone and other similar payments for granting third parties a license to intellectual property related to products or technologies. Regarding income from out-licensing agreements, Chugai recognizes the revenue on granting the license when there is no further performance obligation after entering into the out-licensing agreements. On the other hand, if the out-licensing agreements involve any commitments to conduct research, late-stage development, regulatory approval, co-marketing or manufacturing, deferred income is recognized as revenues corresponding to the performance obligations remaining after the out-licensing agreements are entered into, when the applicable performance obligations are satisfied. Generally, licenses granted are the rights to use intellectual property and are unique for each agreement. Considering that Chugai recognizes royalty income and profit-sharing income based on sales reports from counterparties	income from out-licensing agreements included the following: **(1) Internal control testing** We tested the design and operating effectiveness of certain of Chugai’s internal controls relevant to the calculation of royalties and income from out-licensing agreements. In this assessment, we focused our testing on controls to determine whether or not the amount and accounting treatment of royalties and income from profit-sharing arrangements with collaboration partners are appropriate based on the relevant reports or agreements. **(2) Assessment of the appropriateness of revenue recognition** In order to determine whether royalties and income from out-licensing agreements that exceeded a certain threshold were appropriately recognized or not, we: ● compared the amount of royalties recognized to the reports prepared by counterparties for consistency; ● for royalty income, compared the income calculated by multiplying the amounts described in the customer’s sales reports by the royalty rates in the relevant agreements with the royalty income recognized by Chugai; and inspected the written out-licensing agreements with customers, and assessed whether the performance obligations were appropriately identified based on the terms of the agreements, whether the transaction price was reasonably allocated to the respective performance obligations identified, and whether revenue was appropriately recognized at the point in time when these performance obligations were satisfied.

and the calculation and data entry processes are not automated, we are required to pay close attention to the appropriateness of revenue recognition. In addition, for income from out-licensing agreements, as the terms and conditions of transactions vary from agreement to agreement, management's judgment may be required in identifying performance obligations included in the applicable agreements and determining the allocation of transaction prices as well as the point in time when each performance obligation is satisfied. We, therefore, determined that our assessment of the appropriateness of the recognition of royalties and income from out-licensing agreements was one of the most significant in our audit of the consolidated financial statements for the current year, and accordingly, a key audit matter.	

Other Information

The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements, the financial statements, and our auditor's reports thereon.

We do not perform any work on the other information as we determine such information does not exist.

Responsibilities of Management and Corporate Auditors and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with IFRS and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in Japan will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with IFRS, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and the board of corporate auditors with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with corporate auditors and the board of corporate auditors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Akihiro Ohtani

Designated Engagement Partner

Certified Public Accountant

Terukazu Nagamine

Designated Engagement Partner

Certified Public Accountant

Yujiro Kitamura

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

March 30, 2023

Notes to the Reader of Independent Auditor's Report:
This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.