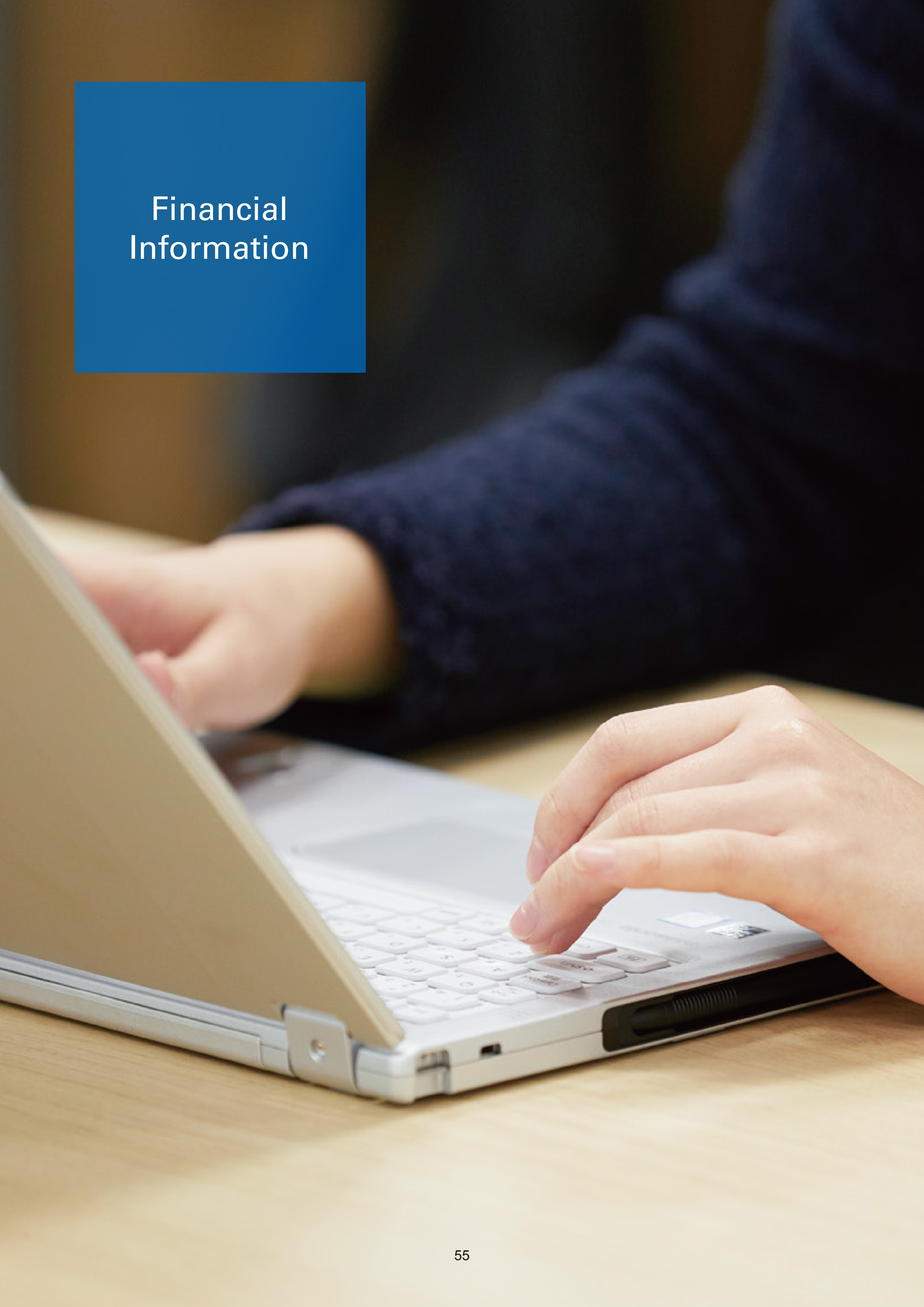
Financial Information



Consolidated Financial Indicators

Chugai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years ended December 31

(Billions of yen)

International Financial Reporting Standards (IFRS)	2020		2019		2018		2017	
	IFRS	Core[1]	IFRS	Core	IFRS	Core	IFRS	Core
Results								
Revenues[2]	**786.9**		686.2		579.8		534.2	
Sales	**633.3**		588.9		527.8		499.3	
Royalties and other operating income	**153.6**		97.3		51.9		34.9	
Cost of sales	**(273.5)**	**(272.3)**	(266.1)	(265.1)	(262.8)	(261.9)	(254.2)	(252.9)
Operating expenses	**(212.3)**	**(206.7)**	(209.5)	(196.2)	(192.6)	(187.6)	(181.1)	(178.1)
Marketing and distribution	**(72.6)**	**(71.5)**	(77.2)	(73.5)	(73.7)	(73.7)	(72.8)	(72.8)
Research and development	**(117.9)**	**(113.5)**	(107.9)	(102.1)	(99.2)	(94.2)	(92.9)	(88.9)
General and administration	**(21.8)**	**(21.7)**	(24.4)	(20.6)	(19.7)	(19.7)	(15.3)	(16.3)
Operating profit	**301.2**	**307.9**	210.6	224.9	124.3	130.3	98.9	103.2
Profit before taxes	**298.2**	**304.9**	207.9	222.2	121.4	127.5	97.0	101.3
Net income	**214.7**	**219.4**	157.6	167.6	93.1	97.3	73.5	76.7
Attributable to Chugai shareholders	**214.7**	**219.4**	157.6	167.6	92.5	96.7	72.7	75.9
Core EPS (Yen)[3]	**—**	**133.39**	—	101.93	—	58.81	—	46.23
Cash dividends per share (Yen)[3]	**55.00**		46.67		28.67		20.67	
Core payout ratio	**—**	**41.2%**	—	45.8%	—	48.7%	—	44.7%
Financial Position								
Net operating assets (NOA)	**646.0**		547.0		505.3		440.2	
Total assets	**1,235.5**		1,058.9		919.5		852.5	
Total liabilities	**(255.5)**		(204.9)		(163.0)		(159.6)	
Total net assets	**980.0**		854.0		756.5		692.9	
Investments in property, plant and equipment	**75.2**		54.0		71.8		34.3	
Depreciation	**22.0**		17.8		14.6		14.5	
Main Indicators								
Cost to sales ratio	**43.2%**	**43.0%**	45.2%	45.0%	49.8%	49.6%	50.9%	50.7%
Ratio of operating profit to revenues	**38.3%**	**39.1%**	30.7%	32.8%	21.4%	22.5%	18.5%	19.3%
Ratio of research and development expenditures to revenues	**15.0%**	**14.4%**	15.7%	14.9%	17.1%	16.2%	17.4%	16.6%
Core return on invested capital (Core ROIC)[4, 5]	**36.5%**	**37.3%**	30.1%	31.9%	20.3%	21.2%	17.3%	18.1%
Ratio of net income to equity attributable to Chugai shareholders (ROE)[6]	**23.4%**	**—**	19.6%	—	12.8%	—	10.9%	—
Ratio of profit before taxes to total assets (ROA)[7]	**26.0%**	**—**	21.0%	—	13.7%	—	11.7%	—
Equity per share attributable to Chugai shareholders (BPS) (Yen)[3]	**596.16**	**—**	519.91	—	460.42	—	421.82	—
Ratio of equity attributable to Chugai shareholders	**79.3%**	**—**	80.6%	—	82.2%	—	81.2%	—
Number of employees	**7,555**		7,394		7,432		7,372	

1. Core basis results are IFRS basis results adjusted for items recognized by Chugai as non-recurring. Core basis results are used by Chugai as internal performance indicators for representing recurring profit trends both internally and externally, and as indices for establishing profit distributions such as returns to shareholders.
2. Revenues do not include consumption tax.
3. Effective July 1, 2020, Chugai has implemented a three-for-one stock split of its common stock. Figures are calculated based on the assumption that the stock split was implemented at the beginning of 2012.
4. Core return on invested capital (Core ROIC) = Core net operating profit after taxes / Net operating assets (Core ROIC is calculated by using Core income taxes.)
5. Return on invested capital (ROIC) = Net operating profit after taxes / Net operating assets (Net operating profit after taxes = Operating profit – Income taxes)
6. Ratio of net income to equity attributable to Chugai shareholders (ROE) = Net income attributable to Chugai shareholders / Capital and reserves attributable to Chugai shareholders (average of beginning and end of fiscal year)
7. Ratio of profit before taxes to total assets (ROA) = Profit before taxes / Total assets (average of beginning and end of fiscal year)

Consolidated Financial Indicators

(Billions of yen)

International Financial Reporting Standards (IFRS)	2016		2015		2014		2013		2012	
	IFRS	Core	IFRS	Core	IFRS	Core	IFRS	Core	IFRS	Core
Results										
Revenues	491.8		498.8		461.1		423.7		386.6	
Sales	472.7		468.4		436.9		401.3		375.2	
Royalties and other operating income	19.1		30.4		24.2		22.4		11.3	
Cost of sales	(247.9)	(246.7)	(240.2)	(238.9)	(218.1)	(217.0)	(187.0)	(186.1)	(168.2)	(167.3)
Operating expenses	(167.0)	(164.5)	(171.8)	(169.3)	(167.2)	(166.8)	(157.9)	(157.7)	(143.7)	(143.7)
Marketing and distribution	(69.8)	(69.8)	(74.8)	(74.7)	(71.7)	(71.7)	(71.6)	(71.5)	(67.9)	(67.9)
Research and development	(85.0)	(82.6)	(83.8)	(81.9)	(80.8)	(80.6)	(74.3)	(74.1)	(66.6)	(66.6)
General and administration	(12.2)	(12.1)	(13.2)	(12.8)	(14.6)	(14.6)	(12.1)	(12.1)	(9.2)	(9.2)
Operating profit	76.9	80.6	86.8	90.7	75.9	77.3	78.7	79.9	74.7	75.6
Profit before taxes	74.4	78.1	87.3	91.2	76.2	77.6	76.9	78.1	72.7	73.6
Net income	54.4	56.8	62.4	64.9	52.1	53.0	51.9	52.6	46.8	47.4
Attributable to Chugai shareholders	53.6	56.1	61.1	63.7	51.0	51.9	50.9	51.6	46.1	46.6
Core EPS (Yen)	—	34.17	—	38.81	—	31.68	—	31.56	—	28.55
Cash dividends per share (Yen)	17.33		19.33		16.00		15.00		13.33	
Core payout ratio	—	50.7%	—	49.8%	—	50.5%	—	47.5%	—	46.7%
Financial Position										
Net operating assets (NOA)	431.1		380.4		357.7		325.2		307.9	
Total assets	806.3		787.4		739.5		697.2		645.3	
Total liabilities	(159.8)		(160.1)		(141.8)		(124.0)		(116.2)	
Total net assets	646.5		627.3		597.8		573.2		529.2	
Investments in property, plant and equipment	19.4		28.7		16.3		13.0		14.2	
Depreciation	14.8		14.0		13.7		13.5		13.3	
Main Indicators										
Cost to sales ratio	52.4%	52.2%	51.3%	51.0%	49.9%	49.7%	46.6%	46.4%	44.8%	44.6%
Ratio of operating profit to revenues	15.6%	16.4%	17.4%	18.2%	16.5%	16.8%	18.6%	18.9%	19.3%	19.6%
Ratio of research and development expenditures to revenues	17.3%	16.8%	16.8%	16.4%	17.5%	17.5%	17.5%	17.5%	17.2%	17.2%
Return on invested capital (ROIC)	—	14.6%	—	—	—	—	—	—	—	—
Ratio of net income to equity attributable to Chugai shareholders (ROE)	8.4%	—	10.0%	—	8.7%	—	9.3%	—	9.0%	—
Ratio of profit before taxes to total assets (ROA)	9.3%	—	11.4%	—	10.6%	—	11.5%	—	11.8%	—
Equity per share attributable to Chugai shareholders (BPS) (Yen)	393.89	—	382.06	—	364.30	—	349.82	—	323.36	—
Ratio of equity attributable to Chugai shareholders	80.1%	—	79.5%	—	80.6%	—	82.0%	—	81.8%	—
Number of employees	7,245		7,169		7,023		6,872		6,836	

Management's Discussion and Analysis

Management Policy

Chugai's Mission is to dedicate itself to adding value by creating and delivering innovative products and services for the medical community and human health around the world based on its strategic alliance with Roche. Aiming at becoming a top innovator for advanced and sustainable patient-centric healthcare, we set up our fundamental management policy of growing together with society.

In our mid-term business plan IBI 21, launched in 2019, we laid the foundation for further growth by exceeding its goals in both quantitative and qualitative terms ahead of the target date of 2021, the final year of the plan. We have therefore concluded IBI 21 one year ahead of schedule and formulated a new growth strategy, TOP I 2030, to give concrete substance to our target profile as a top innovator in the healthcare industry, which the new plan aims to realize by 2030.

In recent years, all aspects of our business environment, from the evolution of science and technology to government healthcare policy and market trends, have been drastically changing, which has made it all the more important to review and implement strategy in a more flexible manner. In response, our new growth strategy, instead of adopting a management plan with the conventional three-year format, sets out an interim milestone for each strategy to serve as a shorter-term goal, enabling more agile adjustment of these milestones as conditions change and the strategy progresses. In parallel, we will formulate a series of single-year plans focused on the 2030 goals and the interim milestones.

The new growth strategy rests on two pillars: realizing global first-class drug discovery and building a futuristic business model. To firmly implant these pillars, in addition to concentrating company-wide management resources on research and early development, which is the source of our value creation, Chugai will utilize AI-based drug discovery and other digital technologies to energetically drive open innovation. Additionally, as specific initiatives within the new growth strategy, we have announced five areas of reform: drug discovery, development, pharmaceutical technology, value delivery through our various value chains, and the growth foundation supporting each of these areas.

In the area of shareholder returns, Chugai's aim is to offer shareholders a continuous stable dividend after taking into account projected business results and evolving needs in strategic investment funding. In line with this approach, our target payout ratio is 45% on average based on Core EPS. Internal reserves will be used to increase corporate value through investments for further growth in existing strategic areas and to explore future business opportunities.

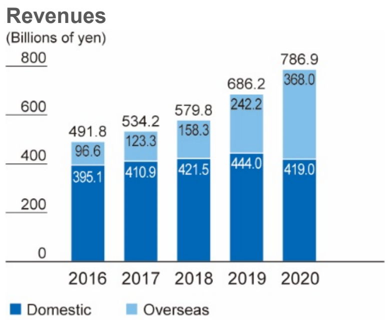
Overview of Results

Revenues

(Billions of yen)

	2018	2019	2020	2019/2020 Change
Revenues	579.8	686.2	786.9	+14.7%
Sales	527.8	588.9	633.3	+7.5%
Royalties and other operating income (ROOI)	51.9	97.3	153.6	+57.9%

- In 2020, revenues were impacted by the NHI drug price revision and the market penetration of generics, resulting in a decrease in sales in Japan. However, overall sales increased year on year due to growth in exports of Chugai products to Roche and a rise in ROOI.
- Overseas revenues increased steadily with the growth of global products from Chugai research.
- ROOI increased year on year due to a significant increase in royalty and profit-sharing income associated with Hemlibra.

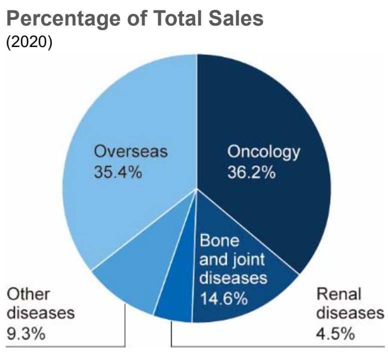


Domestic Sales by Area

(Billions of yen)

	2018	2019	2020	2019/2020 Change
Domestic sales	399.9	437.6	409.1	–6.5%
Oncology	225.7	240.5	229.5	–4.6%
Bone and joint diseases	100.5	108.4	92.4	–14.8%
Renal diseases	36.3	34.6	28.6	–17.3%
Other diseases	37.5	54.1	58.7	+8.5%

- Domestic sales decreased 6.5% in 2020, mainly due to a decline in sales of mainstay products in the oncology, bone and joint diseases, and renal diseases areas affected by the NHI drug price revision in April and the market penetration of generics.
- In the oncology area, the new product Tecentriq and the mainstay products Alecensa and Perjeta saw sales growth, but sales decreased overall due to the impact on Avastin, Herceptin, and other products of the NHI drug price revision and market penetration by generics.



- The bone and joint diseases area saw a substantial sales decrease due to the impact of the NHI drug price revision on Actemra and the sales launch of generics in competition with Edirol.
- In the other diseases area, sales grew as the new product Hemlibra made steady progress.

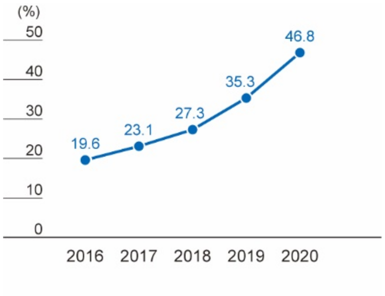
Overseas Sales

(Billions of yen)

	2018	2019	2020	2019/2020 Change
Overseas sales	127.9	151.3	224.2	+48.2%
Actemra (exports to Roche)	78.7	86.5	132.0	+52.6%
Alecensa (exports to Roche)	28.9	44.6	43.0	–3.6%
Hemlibra (exports to Roche)	2.3	3.3	24.6	+645.5%
Enspryng (exports to Roche)	—	—	5.6	—%

- Overseas sales increased year on year in 2020. The main reasons for the increase were that exports to Roche of Actemra grew substantially in the context of the COVID-19 pandemic, that exports to Roche of Hemlibra switched to the regular shipment price, and that exports to Roche of Enspryng began in 2020.

Overseas Sales Ratio



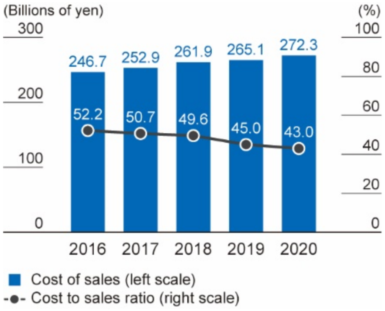
Cost of Sales (Core Basis)

(Billions of yen)

	2018	2019	2020	2019/2020 Change
Cost of sales	(261.9)	(265.1)	(272.3)	+2.7%
Cost to sales ratio	49.6%	45.0%	43.0%	–2.0% pts

- The cost to sales ratio decreased year on year in 2020, mainly because of Chugai products, which have a lower cost to sales ratio than products in-licensed from Roche, accounting for a higher percentage of the sales mix, and because of the switch to the regular shipment price for Hemlibra exports to Roche.

Cost of Sales/Cost to Sales Ratio



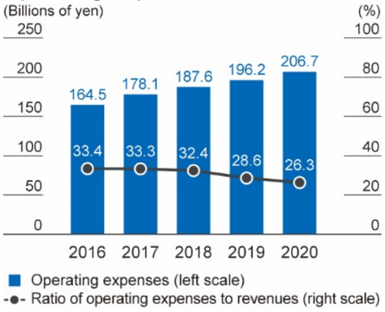
Operating Expenses (Marketing and Distribution Expenses, R&D Expenditures, and General and Administration Expenses) (Core Basis)

(Billions of yen)

	2018	2019	2020	2019/2020 Change
Total operating expenses	(187.6)	(196.2)	(206.7)	+5.4%
Marketing and distribution expenses	(73.7)	(73.5)	(71.5)	–2.7%
R&D expenditures	(94.2)	(102.1)	(113.5)	+11.2%
General and administration expenses	(19.7)	(20.6)	(21.7)	+5.3%

- Marketing and distribution expenses decreased as a result of the reduction in business activities caused by the COVID-19 pandemic.
- R&D expenditures increased year on year as development projects progressed and were the main factor in an overall increase in operating expenses.

Operating Expenses/Ratio of Operating Expenses to Revenues



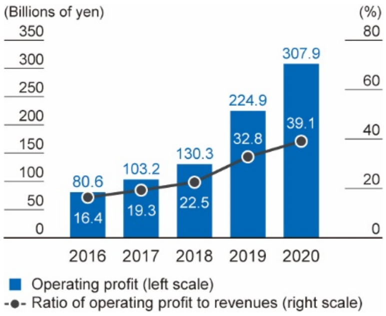
Operating Profit and Net Income (Core Basis)

(Billions of yen)

	2018	2019	2020	2019/2020 Change
Operating profit	130.3	224.9	307.9	+36.9%
Ratio of operating profit to revenues	22.5%	32.8%	39.1%	+6.3% pts
Net income	97.3	167.6	219.4	+30.9%

- Both operating profit and net income increased significantly in 2020, mainly due to the substantial growth in exports to Roche of Actemra and Hemlibra, an increase in ROOI from Hemlibra, and the decrease in cost to sales ratio accompanying the increased share of Chugai products in total sales.

Operating Profit/Ratio of Operating Profit to Revenues



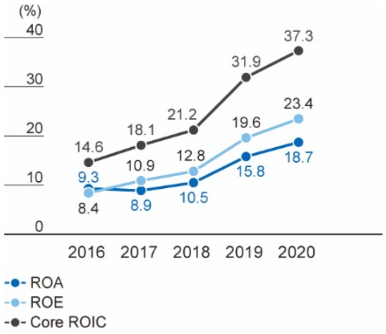
Profitability Indicators

	2018	2019	2020	2019/2020 Change
Gross profit to revenues (%) (Core)	54.8	61.4	65.4	+4.0% pts
Operating profit to revenues (%) (Core)	22.5	32.8	39.1	+6.3% pts
Ratio of profit before taxes to total assets (ROA) (%) (IFRS)	10.5	15.8	18.7	+2.9% pts
Ratio of net income to equity attributable to Chugai shareholders (ROE) (%) (IFRS)	12.8	19.6	23.4	+3.8% pts
Core return on invested capital (Core ROIC) (%)	21.2	31.9	37.3	+5.4% pts

Notes: 1. ROA = Net income attributable to Chugai shareholders / Total assets
2. ROE = Net income attributable to Chugai shareholders / Capital and reserves attributable to Chugai shareholders
3. Core ROIC = Core net operating profit after taxes / Net operating assets (Core ROIC is calculated by using Core income taxes.)

- Net operating assets (NOA) increased significantly due to aggressive strategic investments such as Chugai Life Science Park Yokohama. Core ROIC also grew year on year in 2020 due to growth in Core net operating profit after taxes.

ROA/ROE/Core ROIC



Financial Position

Assets, Liabilities, and Net Assets

In conjunction with its decision to apply IFRS from 2013, Chugai has reorganized the consolidated balance sheets and discloses assets and liabilities including net operating assets for use as internal performance indicators (Roche discloses the same indicators). No items have been excluded from the IFRS balance sheet, as the Core basis results concept only applies to the income statement.

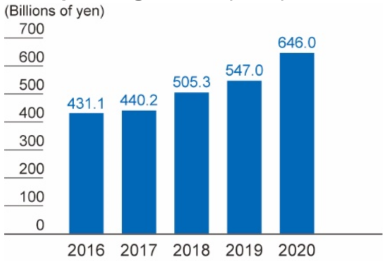
Net Operating Assets (NOA)

(Billions of yen)

	2018	2019	2020	2019/2020 Change
Net working capital	235.1	237.2	300.0	+26.5%
Long-term net operating assets	270.1	309.8	346.0	+11.7%
Net operating assets (NOA)	505.3	547.0	646.0	+18.1%

- Net working capital increased from the end of the previous year due mainly to increase in accounts receivable. Long-term net operating assets grew, notably due to the increase in property, plant and equipment resulting from the investment in Chugai Life Science Park Yokohama.

Net Operating Assets (NOA)



NOA are the total of net working capital and long-term net operating assets. Net working capital is composed of accounts receivable, inventories, accounts payable, and other payables and receivables. Long-term net operating assets are composed of property, plant and equipment, intangible assets, and other items.

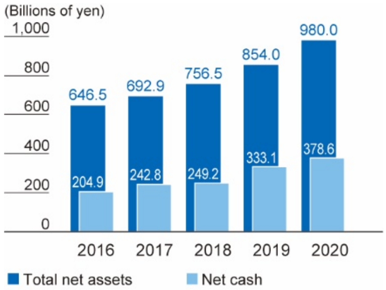
Total Net Assets

(Billions of yen)

	2018	2019	2020	2019/2020 Change
Net operating assets (NOA)	505.3	547.0	646.0	+18.1%
Net cash	249.2	333.1	378.6	+13.7%
Other non-operating assets – net	2.1	(26.1)	(44.6)	+70.9%
Total net assets	756.5	854.0	980.0	+14.8%

- Total net assets at December 31, 2020 increased from a year earlier due to factors including an increase in property, plant and equipment resulting from investment in Chugai Life Science Park Yokohama and an increase in net cash.
- Despite the rapid evolution of life science and digital technology, operating conditions for pharmaceutical companies are becoming more challenging due to the increasing fiscal pressure at a global level. In response, we will work to further increase corporate value through continuous innovation supported by strategically targeted investment.

Total Net Assets/Net Cash



Total Assets and Total Liabilities

(Billions of yen)

	2018	2019	2020	2019/2020 Change
Total assets	919.5	1,058.9	1,235.5	+16.7%
Total liabilities	(163.0)	(204.9)	(255.5)	+24.7%

- Calculated under the headings of assets, liabilities, and net assets, there has been an increasing tendency in total assets, total liabilities, and total net assets.

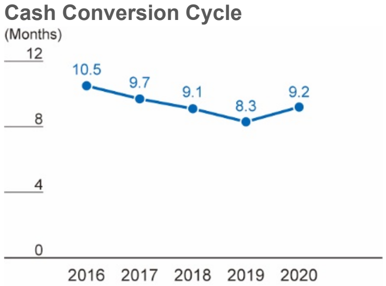
Total Assets/Total Liabilities

Financial Position Indicators

	2018	2019	2020	2019/2020 Change
Ratio of equity attributable to Chugai shareholders (%)	82.2	80.6	79.3	–1.3% pts
Cash conversion cycle (Months)	9.1	8.3	9.2	+0.9 months
Net cash turnover period (Months)	5.2	5.8	5.8	0.0 months
Current ratio (%)	443.8	390.3	353.7	–36.6% pts
Debt-to-equity ratio (%)	0.0	0.0	0.0	—

Notes: 1. Ratio of equity attributable to Chugai shareholders = Capital and reserves attributable to Chugai shareholders (fiscal year-end) / Total assets (fiscal year-end)
2. Cash conversion cycle = [Trade accounts receivable / Sales + (Inventories – Trade accounts payable) / Cost of sales] x Months passed
3. Net cash turnover period = Net cash / Revenues x Months passed
4. Current ratio = Current assets (fiscal year-end) / Current liabilities (fiscal year-end)
5. Debt-to-equity ratio = Interest-bearing debt (fiscal year-end) / Capital and reserves attributable to Chugai shareholders (fiscal year-end)

Cash Conversion Cycle



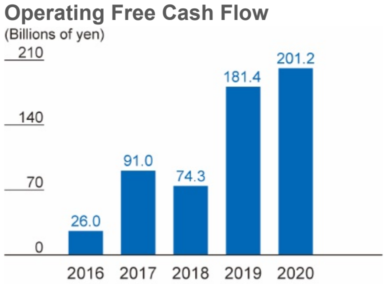
Cash Flows

In conjunction with its decision to apply IFRS from 2013, Chugai has reorganized the consolidated statements of cash flows and uses free cash flows as internal performance indicators (Roche discloses the same indicators). No items have been excluded from cash flows, as the Core basis results concept only applies to the income statement.

(Billions of yen)

	2018	2019	2020	2019/2020 Change
Movement of Free Cash Flow				
Operating profit	124.3	210.6	301.2	+43.0%
Operating profit, net of operating cash adjustment	147.4	245.2	335.5	+36.8%
Operating free cash flow	74.3	181.4	201.2	+10.9%
Free cash flow	43.7	142.6	135.4	–5.0%
Net increase/decrease in cash	6.4	83.9	45.5	–45.8%
Consolidated Statement of Cash Flows				
Cash flows from operating activities	119.1	206.6	205.0	–0.8%
Cash flows from investing activities	(74.1)	(81.7)	(98.3)	+20.3%
Cash flows from financing activities	(35.0)	(66.9)	(99.5)	+48.7%
Net increase in cash and cash equivalents	7.8	57.1	8.4	–85.3%
Cash and cash equivalents at end of year	146.9	203.9	212.3	+4.1%

Operating Free Cash Flow



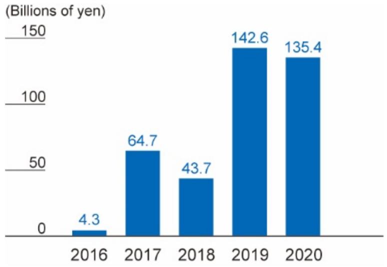
Operating free cash flow

- Operating profit, net of operating cash adjustment, is calculated by adjusting for depreciation and other items that are included in operating profit but are not accompanied by cash inflows or outflows and all inflows and outflows related to NOA that are not accompanied by profit or loss.
- Operating free cash flow for the fiscal year under review amounted to a net inflow of ¥201.2 billion due to a significant increase in operating profit and other factors, despite an increase in net working capital and other related items of ¥64.4 billion, as well as expenditures of ¥57.0 billion for the purchase of property, plant and equipment. The purchase of property, plant and equipment included investment and other expenditures for Chugai Life Science Park Yokohama.

- With the application of IFRS 16 "Leases," operating free cash flow includes expenditures of ¥8.4 billion for lease liabilities paid.

Free cash flow

- Free cash flow was a net cash inflow of ¥135.4 billion due mainly to income taxes paid of ¥66.8 billion.
- Net cash as of December 31, 2020, after subtracting dividends paid of ¥91.4 billion and other expenditures, showed an increase of ¥45.5 billion from the previous year end to ¥378.6 billion.

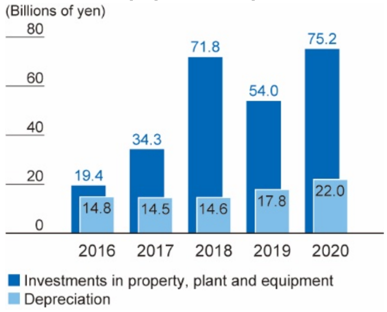


Capital Investments

(Billions of yen)

	2018	2019	2020	2019/2020 Change
Investments in property, plant and equipment	71.8	54.0	75.2	+39.3%
Depreciation	14.6	17.8	22.0	+23.6%

- Capital investments in 2020 included investment in Chugai Life Science Park Yokohama and investments in manufacturing facilities at the Fujieda Plant.
- Chugai plans to make capital investments of ¥79.5 billion during 2021, consisting primarily of new investment in the main facilities below, and expects depreciation to total ¥21.0 billion.



Major Capital Investments—Current and Planned
(Chugai Pharmaceutical Co., Ltd.)

Facilities (Location)	Description	Planned investment (Billions of yen)		Fund-raising method	Start of construction	Planned transfer/completion date
		Total amount	Investment to date			
Chugai Life Science Park Yokohama (Totsuka-ku, Yokohama City, Kanagawa)	Pharmaceutical research	128.5	65.2	Self-financing	June 2019	August 2022
Fujieda Plant (Fujieda City, Shizuoka)	Small and mid-size molecule API manufacturing	19.1	12.7	Self-financing	May 2019	October 2022

Outlook for 2021

Forecast Assumptions

For 2021, Chugai assumes exchange rates of ¥116/CHF, ¥126/EUR, ¥105/USD, and ¥78/SGD.

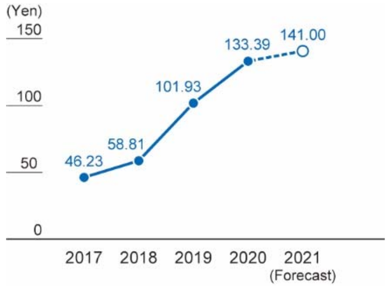
Results Forecast (Core Basis)

(Billions of yen)

	2019	2020	2021 Forecast	2020/2021 Change
Revenues	686.2	786.9	800.0	+1.7%
Sales	588.9	633.3	631.0	–0.4%
Domestic	437.6	409.1	393.7	–3.8%
Overseas	151.3	224.2	237.3	+5.8%
Royalties and other operating income (ROOI)	97.3	153.6	169.0	+10.0%
Royalty and profit-sharing income	76.5	129.6	163.0	+25.8%
Other operating income	20.8	24.1	6.0	–75.1%
Core operating profit	224.9	307.9	320.0	+3.9%
Core EPS (Yen)[1]	101.93	133.39	141.00	+5.7%

- Although sales growth is expected from new products including Hemlibra and Tecentriq, domestic sales are forecast to decrease overall compared with 2020 due to the impact of generics and other competitor products and the first interim NHI drug price revision.
- Overseas sales are forecast to increase mainly on large growth in exports of Hemlibra, whose exports to Roche switched to the regular shipment price in 2020. For Actemra, whose exports increased in 2020 due to COVID-19, the effect of the pandemic in 2021 is projected to be limited.
- ROOI is forecast to increase substantially because royalties and profit-sharing income are expected to increase, primarily in connection with Hemlibra. Other operating income is also expected to decrease due to factors including a decrease in one-time income.
- The cost to sales ratio is forecast to decrease year on year due to a change in the product mix based on the continued growth of Chugai product sales in and outside Japan.
- We expect operating expenses to increase overall due mainly to an increase in R&D activity, including the progress of development projects and related expenses to produce investigational drugs.
- We forecast that Core operating profit and Core EPS will increase despite the expected decrease in domestic sales, mainly as a result of growth in exports of Hemlibra to Roche, increased royalty income, and the lower cost of sales.

Core EPS[1, 2]



1. Effective July 1, 2020, Chugai has implemented a three-for-one stock split of its common stock. Figures are calculated based on the assumption that the stock split was implemented at the beginning of 2017.
2. Core EPS = Core net income attributable to Chugai shareholders / Diluted weighted average shares outstanding

Fundamental Profit Distribution Policy and Dividends

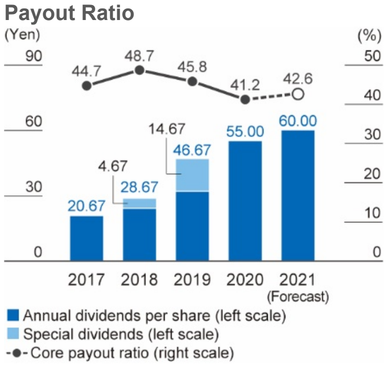
After taking into account projected business results and evolving needs in strategic investment funding, Chugai aims to offer shareholders a stable dividend, with a target payout ratio of 45 percent on average based on Core EPS. Internal reserves will be used to increase corporate value through investments for further growth in existing strategic areas and to explore future business opportunities.

(Yen)

	2018	2019	2020	2021 Forecast
Basic net income per share (EPS)[3]	56.36	95.95	130.66	—
Core EPS[3]	58.81	101.93	133.39	141.00
Equity per share attributable to Chugai shareholders (BPS[3])	460.42	519.91	596.16	—
Cash dividends per share[3]	28.67	46.67	55.00	60.00
Core payout ratio	48.7%	45.8%	41.2%	42.6%
Core payout ratio (five-year average)	48.6%	47.4%	44.9%	43.8%

- Cash dividends per share for 2020 totaled ¥55, and the five-year average Core EPS payout ratio was 44.9 percent.
- The dividend forecast for 2021 calls for an interim dividend of ¥30 and a year-end dividend of ¥30.

Cash Dividends per Share[1]/Core Payout Ratio



3. Effective July 1, 2020, Chugai implemented a three-for-one stock split of its common stock. Figures are calculated based on the assumption that the stock split was implemented at the beginning of 2018.

Business Risks

Principal Risks

Chugai's corporate performance is subject to material impact from a range of possible future events. Below, we list what we consider the principal sources of risk to our business operations.

We recognize the possibility of these risk events actually occurring, and have prepared policies to forestall such events and take appropriate measures when they do occur.

Please note that this does not constitute a comprehensive listing of all risks facing the Chugai Group and that there are other risks, which may affect investment decisions. The categories of future risks identified in this section are based on assessments made by Chugai as of December 31, 2020.

1. Potential Risks in Management Strategy (Strategic Risk)

1) Technology and Innovation

Under its strategic alliance with Roche, the Chugai Group works to enhance its strengths in science and technology for the creation of innovative drugs. The Group is focused specifically on developing drug discovery technology for mid-size molecules to address unmet medical needs for which solutions have so far not been found using small molecules and therapeutic antibodies. Chugai is also actively progressing with the use of digital technology to boost efficiency in the research process.

However, in the constantly advancing fields of science, drug discovery technology, and digital technology, delayed development of in-house technology, the emergence of solutions with strong competitive advantage, and similar eventualities carry the risk of decline in the value of in-house technology and products, revision of development plans, and other negative outcomes. The Chugai Group applies a range of intellectual property (IP) rights in its business activities, which it understands to either be its own proprietary rights or rights that it is licensed to use under relevant laws. Nevertheless, there remains the possibility, based on a different understanding, that the Group might suffer an infringement of its IP rights by a third party or itself infringe on those of a third party. Major disputes involving IP rights associated with the Group's business activities could have a material impact on its strategy execution through outcomes such as reduction in projected profits, suspension of production and sale, loss of access to use of technologies, and payment of usage fees.

To respond to these risks, Chugai works through selection and concentration of management resources to increase the superiority of its proprietary technology, securing appropriate access to cutting-edge science and technology. At the same time, we seek to increase diversification by enhancing external collaborations. For the development of mid-size molecule drugs, we are taking measures for stronger collaboration between the relevant internal organizations (drug discovery, development, and pharmaceutical technology and production) and to address IP rights issues with an enhanced IP strategy.

Based on the risk appetite of the Group, Chugai takes risks to aggressively pursue opportunities to create innovation. In parallel, we seek to reinforce factors that encourage innovation in such areas as workplace environment, organizational culture, and human resource development and to reduce risks that hinder innovation.

2) Healthcare System and Pharmaceutical Regulation

In order to address unmet medical needs, the Chugai Group is focused on the successive creation of innovative new drugs that can achieve the status of first-in-class (an original drug of that is highly novel and useful, and will significantly change the therapeutic system) and best-in-class (a drug that offers clear advantages over other existing drugs in the same category such as those with the same molecular target).

Meanwhile, Japan and other countries are strengthening measures to reduce drug prices as issues such as aging populations and surging healthcare costs put strains on their finances. The great fiscal mobilization associated with the COVID-19 pandemic is expected to further accelerate efforts by each country to curb healthcare costs. In Japan specifically, in addition to the National Health Insurance (NHI) drug price revision that takes place every two years, a revision in interim years has been introduced from 2021, with approximately 70 percent of all products designated as potential candidates for price reduction. If the policy of drug price reduction and promotion of generics is expanded, the result will be a still greater reduction in revenues than so far experienced, which would risk impairing investment in research and development.

Moreover, we believe that this policy will lead to the continued advance of value-based healthcare (VBHC), adding further momentum to the trend to pursue only solutions that offer true value for patients. Chugai will continue efforts to deliver new value through innovation and to strengthen its earnings structure. At the same time, we will work to upgrade overseas intelligence functions to remain current with reforms to the systems and pharmaceutical regulation of different countries and trends in overseas markets.

3) Markets and Customers

As well as the increasing market penetration of competing products, generics, and biosimilars, recent years have seen the development of new therapeutic modalities including regenerative medicine, cellular and genomic therapies, and therapeutic nucleic acids. Accompanying this, there have been increased calls for integrated value delivery from prevention, diagnosis, and treatment through to post-treatment. Meanwhile, the emergence of a digital oligopoly brought on by the entry of IT platform providers into the healthcare industry is engendering new technologies and threats in life science and digital markets. The competitive environment in the healthcare industry is therefore changing rapidly. Moreover, the COVID-19 pandemic has impacted pharmaceutical companies' systems for information provision, so that the nature of customer contact points is undergoing significant alteration.

These conditions carry the potential risk of decline in market position and product competitiveness and could result in pressure to carry out a fundamental revision of such systems due to the rapid change in customer contact points.

In order to address these risks, the Chugai Group works to successively create new drugs and to diversify its product range. The Group is simultaneously engaged in efforts to advance personalized healthcare (PHC), which realizes optimal diagnosis for the individual patient through gene panel testing. We are also progressing with building a new system for value delivery to customers via a new customer engagement model with an approach that brings together physical, remote, and digital elements to match customer needs.

4) Business Foundation

i. Strategic alliance with Roche

Under its strategic alliance with Roche, Chugai is the only pharmaceutical partner of Roche in the Japanese market and has granted Roche first refusal rights with respect to Chugai's products in global markets outside Japan, excluding South Korea and Taiwan. Consequently, Chugai has in-licensed and out-licensed many products and projects from and to Roche. Changes in Chugai's strategic alliance with Roche for any reason could have a material impact on business performance. There is the additional risk that underperformance by Roche's global drug discovery network could lead to a decline in the stable revenue source provided by products in-licensed from Roche and cause delay in the global market penetration of Chugai products out-licensed to Roche, resulting in a decline in revenues and other negative outcomes. The Chugai Group is committed to pursuing innovation for the successive creation of new drugs, and will work in this way to continue contributing to the value creation of the Roche Group as a whole.

ii. Personnel and organization

In 2020, Chugai introduced a new personnel system designed to assign the right people to the right positions, establish an advanced system of talent management, and foster an organizational culture that encourages a bold spirit of challenge. In addition, we will focus on acquiring, developing, and fulfilling highly specialized talent, such as data scientists and other digital talent, that are key to the execution of our strategy.
Certain risks are nevertheless envisioned. Delay in the securing and development of human resources or a drastic change in the business environment causing a change in the nature of the required work operations could result in mismatch, shortage, surplus, or other human resource issues, while innovation could be hindered by failure to create the envisaged organizational culture.

To address these risks, we have established clearly defined requirements for the human resources that are key to strategy execution, working thus to enhance the plan-based securing and development of human resources. With stronger investment in organizations and human resources, we will put in place an organizational structure and strategic recruitment plans that take careful account of trends in the business environment.

iii. Digital platforms

Despite accelerated digital investment to achieve significant increases in productivity in all value chains, there is the possibility that digital technology will fail to advance and that digital transformation (DX) will stagnate and technical issues arise due to insufficient in-house digital capability, a lack of understanding of digital compliance, and other factors. We will undertake timely revision of our DX strategy and work to strengthen capabilities. At the same time, we will make active use of specialist external human resources.

iv. Earnings structure

With rapid technological advances in the manufacturing industry and fierce competition from pharmaceutical companies in Japan and overseas, the earnings structure could be impacted by increased investment and costs required for R&D expenditures. We will therefore seek to minimize operating costs by applying digital technology to improve processes and raise productivity, and will emphasize careful scrutiny of investment projects.

2. Risks in the Execution of Business Operations (Operational Risks)

1) Quality and Side Effects

For stable delivery to patients of high-value products and services, we believe that prime importance attaches to product efficacy and safety, and the quality to guarantee these. The Chugai Group evaluates and confirms the validity of business processes during the product lifecycle and carries out corresponding improvement, and ensures the reliability of data through introduction and operation of a global IT system. For consistent quality assurance, we also emphasize enhanced collaboration with internal and external partners and hold regular meetings for considering and discussing quality together. However, if for some reason concerns were raised over product quality, a material impact on business performance could result through termination of sales, product recall, loss of public trust, and other consequences.

Pharmaceutical products and medical devices are approved by regulatory authorities in each country after strict review. Following approval, the Chugai Group continues with comprehensive activities to monitor drug safety, and uses its post-marketing surveillance and safety information database tools (PMS and SAFETY DB tools) to carry out swift provision of information matched to patient characteristics. We also operate an app to support patient adherence to medication that promotes smooth communication between patients and healthcare professionals, and helps alleviate the anxiety of patients undergoing treatment. Furthermore, we have established a safety consulting and networking system for healthcare professionals consisting mainly of our Safety Experts, who are professional safety staff. Through these and other initiatives, we are working to strengthen activities for the provision of safety information and thereby promote the proper use of pharmaceuticals. However, because of the characteristics of the products, it is difficult to completely prevent adverse outcomes, such as side effects from their use even if all possible safety measures are taken. In cases where side effects occur, particularly newly discovered serious side effects, in addition to revising the precautions listed in the package insert, the Group may have to terminate sales, recall products, or take other measures with a material impact on business performance.

2) IT Security and Information Control

Chugai makes full use of a wide range of IT systems in its business activities. If negligence or willful misconduct by employees or service providers, or external factors such as cyberattacks, were to cause a system malfunction, the suspension of external service delivery, interference with the content of information provided, or other issues, this could result in suspension or delay of business activities, revision of plans, and costs for urgent response and related measures. In the event of the leakage of trade secrets relating to research and development or other activities, or of personal information or other confidential material, Chugai could experience loss of competitive advantage, loss of public trust, liability for damages, or other outcomes with a material impact on business performance.

To address these risks, the Chugai Group has established related rules and conducts regular education and drills for employees. We additionally work to strengthen system robustness and availability, take measures to reinforce cyberattack and virus detection functions, and upgrade monitoring systems and systems for response to information security incidents. We have moreover put in place a security management system to evaluate and enhance these countermeasures Group-wide, which operates to constantly reduce risk.

3) Impact from Large-Scale Disasters and Other Events
In the event of severe damage to Chugai Group business sites or sales locations, or to the buildings, facilities, or other property of business partners being caused by a natural disaster such as an earthquake, typhoon, or flood, or an accident such as a fire, or in the event of business activities being restricted due to a pandemic caused by a novel influenza virus or other pathogen, this could result in the suspension of drug supplies, facility repair costs and other expenditures, delay in the market penetration of new products, associated reduction of revenues, and other outcomes with a material impact on business performance.

The Group has prepared for these risks and works to reduce them with measures to protect employees and ensure an uninterrupted supply of pharmaceuticals. Measures include the use of property and casualty insurance, the implementation of business continuity plans (BCPs) and drills, the use of aseismic construction, and the maintenance of safety stock.

4) Human Rights
Delays in addressing workplace harassment or human rights issues including occupational health and safety could weaken the Chugai Group's human resources in ways such as negatively affecting the physical and mental health of employees and increasing employee turnover, and damaging public trust in the Group, which could have a material impact on business performance.

The Group addresses these human rights issues with continuous training for executives and employees, as well as with harassment hotlines. It also conducts health and safety programs as part of its health and productivity management.

In addition, the Group asks suppliers to respect human rights and works with them to resolve issues related to human rights.

5) Supply Chains
Raw material suppliers, contract manufacturers, or other business partners could be affected by damage to facilities or by restriction of business activities due to natural disasters, accidents, pandemics, etc. Delays in addressing compliance infringements or environmental issues in the supply chain could also cause problems in procuring raw materials and maintaining production. This might result in loss of public trust, decline in revenues and market share, and consequent material impact on business performance.

The Chugai Group has prepared for these supply chain risks. Measures for the uninterrupted supply of pharmaceuticals include the use of property and casualty insurance, the formulation of BCPs, maintenance of safety stock, and the establishment of systems for sharing information with suppliers.

We also work with suppliers to resolve issues such as supply chain compliance and environmental issues that the Group cannot resolve on its own.

6) Global Environmental Issues
The Chugai Group complies with environment-related laws and regulations and has established a set of even higher voluntary standards that it is committed to achieving and will continue to strengthen and enhance. However, the Group may have to bear expenses for countermeasures or liability for damages should unexpected contamination by harmful substances or collateral damage occur, which could have a material impact on business performance.

We consider climate change to be a key challenge in protecting the global environment, and are therefore committed to reducing greenhouse gas (GHG) emissions. As part of this commitment, in addition to reducing energy consumption, we have set 2025 as the target date for reaching a rate of 100 percent use of sustainable electricity that does not emit GHG. However, if there is a delay in responding to climate change in terms of technologies and facilities, this may result in the revision of capital investment plans and additional costs.

In addition, more stringent environmental regulations in the future may increase expenditures for response measures and limit Group business activities including research, development, and manufacturing.

To disclose environmental information with a high level of transparency and reliability, the Group receives third-party assurance of its environmental performance data annually. Additionally, based on the framework set out in the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we carried out a qualitative evaluation and scenario analysis taking into account the risks and opportunities that climate change presents for Chugai, which did not identify any major climate-related risk requiring large-scale business conversion or investment in the long term. Chugai will conduct continuous analysis and evaluation going forward and seek proactive solutions to environmental issues.

7) Impact of COVID-19
The Chugai Group responded to the COVID-19 pandemic with initiatives to introduce highly flexible workstyles such as teleworking and to establish new workstyles that maintain and improve productivity. In view of its social responsibility for ensuring a stable supply of drugs to patients, Chugai's basic policy following the declaration of a state of emergency was to maintain the ability to continue the required drug supply.

Going forward, we will continue working to maintain a stable supply of drugs, while at the same time taking measures to prevent infection among employees and related business personnel. If business activities are restricted in the future by further spread of the infection or similar reasons, the resulting suspensions or delays in the supply chain could have a material impact on product supply. Moreover, there might be delays in the progress of research and clinical studies, and in the market penetration of new products and other items due to restrictions on the activities of our medical representatives (MRs).

Consolidated Financial Statements

Chugai Pharmaceutical Co., Ltd. and Consolidated Subsidiaries

Consolidated income statement

(Millions of yen)

	2020 Year ended December 31	2019 Year ended December 31	2018 Year ended December 31
Revenues	**786,946**	**686,184**	**579,787**
Sales	633,314	588,896	527,844
Royalties and other operating income	153,631	97,288	51,943
Cost of sales	(273,465)	(266,071)	(262,847)
Gross profit	**513,481**	**420,113**	**316,940**
Marketing and distribution	(72,585)	(77,183)	(73,706)
Research and development	(117,850)	(107,942)	(99,202)
General and administration	(21,816)	(24,391)	(19,710)
Operating profit	**301,230**	**210,597**	**124,323**
Financing costs	(62)	(125)	(111)
Other financial income (expense)	(1,477)	545	449
Other expense	(1,504)	(3,124)	(3,212)
Profit before taxes	**298,188**	**207,893**	**121,449**
Income taxes	(83,455)	(50,333)	(28,370)
Net income	**214,733**	**157,560**	**93,079**
Attributable to:			
Chugai shareholders	214,733	157,560	92,488
Non-controlling interests	—	—	591
Earnings per share:			
Basic (Yen)*	130.66	95.95	56.36
Diluted (Yen)*	130.53	95.81	56.27

* Effective July 1, 2020, Chugai has implemented a three-for-one stock split of its common stock. Figures are calculated based on the assumption that the stock split was implemented at the beginning of 2018.

Consolidated statement of comprehensive income

(Millions of yen)

	2020 Year ended December 31	2019 Year ended December 31	2018 Year ended December 31
Net income recognized in income statement	**214,733**	**157,560**	**93,079**
Other comprehensive income (OCI):			
Remeasurements of defined benefit plans	3,630	329	(2,472)
Financial assets measured at fair value through OCI	(22)	(255)	363
Items that will never be reclassified to the income statement	**3,608**	**74**	**(2,109)**
Financial assets measured at fair value through OCI	12	(17)	0
Cash flow hedges	(3,072)	(1,317)	(225)
Currency translation of foreign operations	1,467	(1,172)	(3,158)
Items that are or may be reclassified to the income statement	**(1,593)**	**(2,506)**	**(3,383)**
Other comprehensive income, net of tax	**2,015**	**(2,433)**	**(5,492)**
Total comprehensive income	**216,748**	**155,127**	**87,587**
Attributable to:			
Chugai shareholders	216,748	155,127	87,078
Non-controlling interests	—	—	509

Consolidated balance sheet

(Millions of yen)

	2020 December 31, 2020	2019 December 31, 2019	2018 December 31, 2018
Assets			
Non-current assets:			
Property, plant and equipment	289,218	255,559	222,388
Right-of-use assets	8,272	9,749	—
Intangible assets	23,880	23,540	22,699
Financial non-current assets	2,841	2,958	9,723
Deferred tax assets	47,934	42,680	35,568
Defined benefit plan assets	492	—	—
Other non-current assets	27,954	24,750	29,077
Total non-current assets	**400,592**	**359,235**	**319,455**
Current assets:			
Inventories	183,893	168,122	159,360
Accounts receivable	253,342	181,641	179,556
Current income tax assets	12	0	3
Marketable securities	166,287	129,117	102,533
Cash and cash equivalents	212,333	203,941	146,860
Other current assets	19,039	16,858	11,781
Total current assets	**834,906**	**699,680**	**600,093**
Total assets	**1,235,498**	**1,058,915**	**919,548**
Liabilities			
Non-current liabilities:			
Long-term debt	—	—	(82)
Deferred tax liabilities	(9,166)	(9,304)	(9,031)
Defined benefit plan liabilities	(2,282)	(7,094)	(14,671)
Long-term provisions	(2,142)	(2,348)	(2,072)
Other non-current liabilities	(5,835)	(6,914)	(1,946)
Total non-current liabilities	**(19,425)**	**(25,662)**	**(27,802)**
Current liabilities:			
Short-term debt	—	—	(133)
Current income tax liabilities	(63,171)	(41,047)	(19,567)
Short-term provisions	(358)	(4)	(1)
Accounts payable	(100,396)	(77,635)	(71,706)
Other current liabilities	(72,146)	(60,582)	(43,810)
Total current liabilities	**(236,070)**	**(179,268)**	**(135,218)**
Total liabilities	**(255,495)**	**(204,930)**	**(163,019)**
Total net assets	**980,003**	**853,985**	**756,529**
Equity:			
Capital and reserves attributable to Chugai shareholders	980,003	853,985	755,864
Equity attributable to non-controlling interests	—	—	664
Total equity	**980,003**	**853,985**	**756,529**
Total liabilities and equity	**1,235,498**	**1,058,915**	**919,548**

Consolidated statement of cash flows

(Millions of yen)

	2020 Year ended December 31	2019 Year ended December 31	2018 Year ended December 31
Cash flows from operating activities			
Cash generated from operations	340,228	249,500	151,857
(Increase) decrease in working capital	(64,421)	6,205	4,486
Payments made for defined benefit plans	(4,656)	(11,540)	(2,652)
Utilization of provisions	(26)	(2)	(29)
Other operating cash flows	694	(2,741)	(3,022)
Cash flows from operating activities, before income taxes paid	**271,820**	**241,423**	**150,639**
Income taxes paid	(66,785)	(34,782)	(31,565)
Total cash flows from operating activities	**205,035**	**206,641**	**119,074**
Cash flows from investing activities			
Purchase of property, plant and equipment	(57,040)	(53,009)	(71,785)
Purchase of intangible assets	(4,349)	(8,168)	(5,886)
Disposal of property, plant and equipment	(22)	119	49
Interest and dividends received	100	197	200
Purchases of marketable securities	(248,143)	(256,768)	(263,503)
Sales of marketable securities	211,000	230,158	264,711
Purchases of investment securities	(177)	(1,013)	(709)
Sales of investment securities	319	6,743	2,863
Other investing cash flows	—	0	(0)
Total cash flows from investing activities	**(98,312)**	**(81,741)**	**(74,060)**
Cash flows from financing activities			
Purchase of non-controlling interests	—	(2,307)	—
Interest paid	(34)	(27)	(5)
Lease liabilities paid	(8,432)	(8,861)	—
Dividends paid to Chugai shareholders	(91,442)	(56,370)	(35,010)
Dividends paid to non-controlling shareholders	—	—	(791)
Exercise as part of equity compensation plans	440	735	996
(Increase) decrease in own equity instruments	(30)	(25)	(19)
Other financing cash flows	—	(16)	(187)
Total cash flows from financing activities	**(99,497)**	**(66,872)**	**(35,014)**
Net effect of currency translation on cash and cash equivalents	1,166	(947)	(2,215)
Increase (decrease) in cash and cash equivalents	**8,393**	**57,081**	**7,785**
Cash and cash equivalents at January 1	203,941	146,860	139,074
Cash and cash equivalents at December 31	**212,333**	**203,941**	**146,860**

Consolidated statement of changes in equity

(Millions of yen)

	Attributable to Chugai shareholders						
	Share capital	Capital surplus	Retained earnings	Other reserves	Subtotal	Non-controlling interests	Total equity
Year ended December 31, 2019							
At January 1, 2019	**73,000**	**66,043**	**618,091**	**(1,270)**	**755,864**	**664**	**756,529**
Net income	—	—	157,560	—	157,560	—	157,560
Financial assets measured at fair value through OCI	—	—	—	(272)	(272)	—	(272)
Cash flow hedges	—	—	—	(1,317)	(1,317)	—	(1,317)
Currency translation of foreign operations	—	—	—	(1,172)	(1,172)	—	(1,172)
Remeasurements of defined benefit plans	—	—	329	—	329	—	329
Total comprehensive income	**—**	**—**	**157,889**	**(2,761)**	**155,127**	**—**	**155,127**
Dividends	—	—	(56,373)	—	(56,373)	—	(56,373)
Equity compensation plans	16	52	—	—	68	—	68
Own equity instruments	—	941	—	—	941	—	941
Changes in non-controlling interests	—	—	(1,662)	19	(1,643)	(664)	(2,307)
Transfer from other reserves to retained earnings	—	—	4,131	(4,131)	—	—	—
At December 31, 2019	**73,016**	**67,037**	**722,076**	**(8,143)**	**853,985**	**—**	**853,985**
Year ended December 31, 2020							
At January 1, 2020	**73,016**	**67,037**	**722,076**	**(8,143)**	**853,985**	**—**	**853,985**
Net income	—	—	214,733	—	214,733	—	214,733
Financial assets measured at fair value through OCI	—	—	—	(9)	(9)	—	(9)
Cash flow hedges	—	—	—	(3,072)	(3,072)	—	(3,072)
Currency translation of foreign operations	—	—	—	1,467	1,467	—	1,467
Remeasurements of defined benefit plans	—	—	3,630	—	3,630	—	3,630
Total comprehensive income	**—**	**—**	**218,363**	**(1,615)**	**216,748**	**—**	**216,748**
Dividends	—	—	(91,467)	—	(91,467)	—	(91,467)
Equity compensation plans	186	(774)	—	—	(588)	—	(588)
Own equity instruments	—	1,324	—	—	1,324	—	1,324
Transfer from other reserves to retained earnings	—	—	121	(121)	—	—	—
At December 31, 2020	**73,202**	**67,586**	**849,093**	**(9,879)**	**980,003**	**—**	**980,003**