NOTICE: For the convenience of capital market participants, Chugai makes efforts to provide English translations of the information disclosed in Japanese, provided that the Japanese original prevails over its English translation in the case of any discrepancy found between documentation.

CHUGAI PHARMACEUTICAL CO., LTD.

A member of the Roche group

CONSOLIDATED FINANCIAL STATEMENTS (IFRS) (Non-Audited)

(for the fiscal year 2023)

Name of Company: Chugai Pharmaceutical Co., Ltd. February 1, 2024
Stock Listing: Tokyo Stock Exchange
Security Code No.: 4519 (URL https://www.chugai-pharm.co.jp/english)
Representative: Osamu Okuda, President & CEO
Contact: Kae Miyata, Head of Corporate Communications Department
Phone: +81-(0)3-3273-0554
Date of Annual General Meeting of Shareholders: March 28, 2024
Date of Submission of Marketable Securities Filings: March 28, 2024
Date on which Dividend Payments to Commence: March 29, 2024
Supplementary Materials Prepared for the Financial Statements: Yes
Presentation Held to Explain the Financial Statements: Yes (for institutional investors, securities analysts and the media)

(Note: Amounts of less than one million yen are rounded.)

1. Consolidated results for FY 2023 (January 1, 2023–December 31, 2023)

(1) Consolidated operating results

	Revenues	% change	Operating profit	% change	Net income	% change
FY ended Dec. 2023	¥1,111,367 million	(11.8)	¥439,174 million	(17.7)	¥325,472 million	(13.1)
FY ended Dec. 2022	¥1,259,726 million	—	¥533,309 million	26.4	¥374,429 million	23.6

	Net income attributable to Chugai shareholders	% change	Total comprehensive income	% change
FY ended Dec. 2023	¥325,472 million	(13.1)	¥332,256 million	(11.1)
FY ended Dec. 2022	¥374,429 million	23.6	¥373,935 million	22.2

	Earnings per share (Basic)	Earnings per share (Diluted)
FY ended Dec. 2023	¥197.83	¥197.80
FY ended Dec. 2022	¥227.64	¥227.57

	Ratio of net income to equity attributable to Chugai shareholders	Ratio of operating profit to revenues
FY ended Dec. 2023	21.3%	39.5%
FY ended Dec. 2022	28.7%	42.3%

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

(2) Consolidated results (balance sheet)

	Total assets	Total equity	Equity attributable to Chugai shareholders	Ratio of equity attributable to Chugai shareholders	Equity per share attributable to Chugai shareholders
As of Dec. 31, 2023	¥1,932,547 million	¥1,625,580 million	¥1,625,580 million	84.1%	¥988.01
As of Dec. 31, 2022	¥1,869,758 million	¥1,424,387 million	¥1,424,387 million	76.2%	¥865.88

(3) Consolidated results (cash flow)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Balance of cash and cash equivalents
FY ended Dec. 31, 2023	¥409,925 million	¥(37,290) million	¥(139,331) million	¥458,674 million
FY ended Dec. 31, 2022	¥243,582 million	¥(145,465) million	¥(145,641) million	¥222,169 million

Note: Starting from FY2023, cash flows associated with income from disposal of product rights, which had previously been classified as "cash flows from operating activities" have been classified as "cash flows from investing activities." In conjunction with this change, the results for FY2022 have been restated accordingly.

2. Dividends

	Annual dividends per share				
	End of first quarter	End of second quarter	End of third quarter	End of fiscal year	Total
FY ended Dec. 2022	—	¥38.00	—	¥40.00	¥78.00
FY ended Dec. 2023	—	¥40.00	—	¥40.00	¥80.00
FY ending Dec. 2024 (Forecast)	—	¥41.00	—	¥41.00	¥82.00

	Total dividends (annual)	Dividend payout ratio (consolidated)	Ratio of dividends to equity attributable to Chugai shareholders (consolidated)
FY ended Dec. 2022	¥128,310 million	34.3%	9.8%
FY ended Dec. 2023	¥131,623 million	40.4%	8.6%
FY ending Dec. 2024 (Forecast)		—%	

3. Consolidated forecasts for FY 2024 (January 1, 2024–December 31, 2024)

	Revenues	% change	Core operating profit	% change	Core net income	% change
FY ending Dec. 2024 (Forecast)	¥1,070,000 million	(3.7)	¥460,000 million	+2.1	¥335,500 million	+0.6
FY ended Dec. 2023 (Results)	¥1,111,367 million	(4.8)	¥450,685 million	(0.2)	¥333,554 million	+5.0

	Core earnings per share		Core dividend payout ratio %
FY ending Dec. 2024 (Forecast)	¥204.00	+0.6	40.2
FY ended Dec. 2023 (Results)	¥202.71	+5.0	39.5

Notes: 1. Percentages shown for Revenues, Core operating profit, Core net income and Core EPS represent changes from the same period of the previous fiscal year.

2. The figures for the consolidated forecasts and actuals are calculated based on Core basis indicators established by Chugai and used on a consistent basis. Core EPS is diluted earnings per share attributable to Chugai shareholders on a Core basis.

4. Others

(1) Changes in the state of material subsidiaries during the period (Changes in the state of specific subsidiaries with change in scope of consolidation): None

(2) Changes in accounting policies and changes in accounting estimates
  (a) Changes in accounting policies required by IFRS: Yes
  (b) Changes in accounting policies other than those in (a) above: None
  (c) Changes in accounting estimates: None

(3) Number of shares issued (common stock):

(a) Number of shares issued at the end of the period (including treasury stock)	As of Dec. 31, 2023	1,679,057,667	As of Dec. 31, 2022	1,679,057,667
(b) Number of treasury stock at the end of the period	As of Dec. 31, 2023	33,743,712	As of Dec. 31, 2022	34,037,098
(c) Average number of shares issued during the period	FY ended Dec. 31, 2023	1,645,208,816	FY ended Dec. 31, 2022	1,644,797,728

Note: For an explanation of the number of shares used for computing earnings per share (consolidated), please refer to "Earnings per share" on page 26 of the attached document.

Notes:
The consolidated financial statements are not subject to audits.

Explanation of the appropriate use of performance forecasts and other related items

(1) Portions of this report that refer to performance forecasts or any other future events are believed to be reasonable under information available at the time of the forecasts. Actual results may differ from these forecasts due to potential risks and uncertainties.
(2) The forecast which is published for shareholders and investors is based on the internal management indicator Core basis under International Financial Reporting Standards ("IFRS"). Core results are the results after adjusting non-recurring items recognized by Chugai to IFRS results. Chugai's recognition of non-recurring items may differ from that of Roche due to the difference in the scale of operations, the scope of business and other factors. Core results are used by Chugai as an indicator for managing internal business performance, explaining the status of recurring profits both internally and externally, and as the basis for payment-by-results such as shareholder returns. The difference between IFRS results and Core results will be explained at each event and presentation for the period.
(3) For the specifics of the forecasts, please refer to "Future outlook" on page 10, "Basic profit distribution principles and dividends for the fiscal year under review and the following fiscal year" on page 11, and "Management Principles and Goals" on page 12 - 17 of the attached document.
(4) Chugai is scheduled to hold a conference to explain the financial results as noted below. The presentation materials, the verbal recording, the Q&A, and other related documents will be posted on the Chugai's website following the conclusion of the conference.
Presentation for institutional investors, securities analysts and the media (Onsite/online conference) (Japanese only): February 1, 2024, Thursday (Japan time).
The English-translated scripts of the presentation and the Q&A will be posted on the website within two business days.

Index of the Attachment

1. Overview of Operating Results, etc.

(1) Overview of operating results for the fiscal year under review in billions of yen

	Year ended December 31		% change
	2023	2022	
Core results			
Revenues	**1,111.4**	**1,167.8**	**(4.8)**
Sales	974.5	1,039.2	(6.2)
Other revenue	136.9	128.6	+6.5
Cost of sales	(412.0)	(475.0)	(13.3)
Gross profit	**699.4**	**692.8**	**+1.0**
Research and development	(162.8)	(143.7)	+13.3
Selling, general and administration	(102.0)	(98.8)	+3.2
Other operating income (expense)	16.1	1.4	12 times
Operating profit	**450.7**	**451.7**	**(0.2)**
Net income	**333.6**	**317.7**	**+5.0**
IFRS results			
Revenues	1,111.4	1,259.7	(11.8)
Operating profit	439.2	533.3	(17.6)
Net income	325.5	374.4	(13.1)

Consolidated financial highlights (IFRS results)
Revenues for the fiscal year under review were ¥1,111.4 billion (a decrease of 11.8% year on year), operating profit for the fiscal year under review was ¥439.2 billion (a decrease of 17.6% year on year), and net income for the fiscal year under review was ¥325.5 billion (a decrease of 13.1% year on year). These results include non-Core items, which are excluded from the Core results that Chugai adopts to manage recurring business activities, such as amortization of intangible assets of ¥1.6 billion, impairment loss of intangible assets of ¥5.1 billion, restructuring expenses, etc. of ¥5.5 billion (income) such as the gain on sales of non-current assets in conjunction with the closing of offices, and expenses associated with the Early Retirement Incentive Program of ¥10.3 billion. Revenue, operating profit, and net income have decreased compared to the previous fiscal year, due to the one-time impact of recognizing the lump-sum payment of ¥90.7 billion as a result of the settlement agreement between Chugai and Alexion Pharmaceuticals, Inc., in the first quarter of the previous fiscal year. For year-on-year comparisons other than the above, see Consolidated financial highlights (Core results).

Consolidated financial highlights (Core results)
Revenues for the fiscal year under review were ¥1,111.4 billion (a decrease of 4.8% year on year), due to a decrease in sales, despite an increase in other revenue.

Of revenues, sales were ¥974.5 billion (a decrease of 6.2% year on year). Domestic sales declined from the previous fiscal year primarily due to the major decrease in sales for the supply of Ronapreve to the government, as well as the effects of the NHI drug price revisions and the market penetration of generic drugs, despite the favorable sales of the mainstay products including Enspryng, Hemlibra, and Tecentriq, in addition to the strong growth of new products such as Polivy and Vabysmo. Overseas sales increased compared to the previous fiscal year due to the major increase in the exports of Hemlibra and Alecensa to Roche. Other revenue amounted to ¥136.9 billion (an increase of 6.5% year on year), due to increase in lump-sum income, etc., in addition to increase in income related to Hemlibra. Furthermore, cost to sales ratio was 42.3%, an improvement of 3.4 percentage points year on year, reflecting a change in the product mix and other factors despite the impact of foreign exchange. As a result, gross profit amounted to ¥699.4 billion (an increase of 1.0% year on year).

Research and development expenses amounted to ¥162.8 billion (an increase of 13.3% year on year) due to investments into drug discovery/early development including the full-scale operation of Chugai Life Science Park Yokohama, and increases associated with the progress of development projects, etc. Selling, general and administration expenses amounted to ¥102.0 billion (an increase of 3.2% year on year), due to an increase in various expenses. Other operating income (expense) was income of ¥16.1 billion (¥1.4 billion of income for the same period of the previous fiscal year) due to the recognition of income from disposal of product rights and gain on sales of property, plant and equipment. As a result, core operating profit was comparable to the previous fiscal year to be ¥450.7 billion (a decrease of 0.2% year on year), and core net income has increased for seven consecutive fiscal years to ¥333.6 billion (an increase of 5.0% year on year) due to a decrease in income tax and an improvement in financial income and expenses.

Meanwhile, compared to the full year forecast announced on February 2, 2023, revenues increased by 3.9% over the full year forecast to ¥1,111.4 billion, due to the favorable performance of both domestic and overseas sales. The cost to sales ratio was 42.3%, an improvement of 1.7 percentage points over the full year forecast, reflecting a change in the product mix and other factors. Furthermore, compared to the full year forecast, research and development expenses decreased by 1.3% to ¥162.8 billion, selling, general and administration expenses increased by 2.0% to ¥102.0 billion, and other operating income (expense) increased by 7.3% to ¥16.1 billion. As a result, core operating profit surpassed the full year forecast by 8.6% to reach ¥450.7 billion and core net income by 9.0% to reach ¥333.6 billion.

Note: Core results
Chugai discloses its results on a Core basis from 2013 in conjunction with its transition to IFRS. Core results are the results after adjusting non-recurring items recognized by Chugai to IFRS results. Chugai's recognition of non-recurring items may differ from that of Roche due to the difference in the scale of operations, the scope of business and other factors. Core results are used by Chugai as an internal performance indicator, for explaining the status of recurring profits both internally and externally, and as the basis for payment-by-results.

For further details regarding the adjustment to IFRS results, please refer to the Supplementary Materials for Consolidated Financial Results for Fiscal Year 2023. 12 (IFRS) ("Supplementary Materials"), dated February 1, 2024, on page 1, entitled "Reconciliation of IFRS results to Core results."

*Presentational changes to consolidated operating results
As of January 1, 2023, the Group adopted the presentational changes to the consolidated operating results. For the fiscal year under review, comparative information for the fiscal year ended December 31, 2022 is also presented reflecting these changes. These changes have no effect on the items from operating profit through net income, earnings per share and the concept of the Core basis.
For further details, please refer to "e. Presentational changes" of "1) General accounting principles and significant accounting policies" on page 23.

Sales breakdown in billions of yen

	Year ended December 31		% change
	2023	2022	
Sales	**974.5**	**1,039.2**	**(6.2)**
Domestic sales	**558.0**	**654.7**	**(14.8)**
Oncology	260.2	256.0	+1.6
Specialty	297.8	398.6	(25.3)
Overseas sales	**416.5**	**384.6**	**+8.3**

Domestic sales
Domestic sales were ¥558.0 billion (a decrease of 14.8% year on year) due to the significant decline in sales for the supply of Ronapreve to the government, the NHI drug price revisions, and the market penetration of generic drugs, despite the favorable market penetration of new products and mainstay products.

Oncology products sales were ¥260.2 billion (an increase of 1.6% year on year). Sales of the new product Polivy (an antimicrotubule binding anti-CD79b monoclonal antibody, anti-cancer agent) increased significantly, and sales of the mainstay product Tecentriq (an anti-PD-L1 humanized monoclonal antibody, anti-cancer agent) were strong, in spite of the decline in sales of Avastin (an anti-VEGF humanized monoclonal antibody, anti-cancer agent), Herceptin (an anti-HER2 humanized monoclonal antibody, anti-cancer agent), and Kadcyla (an anti-HER2 antibody-tubulin polymerization inhibitor conjugate), affected by the market penetration of generic drugs, the NHI drug price revisions, and changes in the competitive landscape.

Specialty product sales were ¥297.8 billion (a decrease of 25.3% year on year). In addition to the strong growth of new products Vabysmo (an ophthalmic VEGF/Ang-2 inhibitor, anti-VEGF/anti-Ang-2 humanized bispecific monoclonal antibody) and Evrysdi (a spinal muscular atrophy agent), sales of the mainstay products Enspryng (a pH-dependent binding humanized anti-IL-6 receptor monoclonal antibody) and Hemlibra (a blood coagulation factor VIII substitute/anti-coagulation factor IXa/X humanized bispecific monoclonal antibody) continued to be strong. Sales of Tamiflu (an anti-influenza agent) significantly increased due to flu epidemic. On the other hand, sales for the supply of Ronapreve (an anti-SARS-CoV-2 monoclonal antibody) to the government resulted in a significant decline and sales of products including Edirol (an osteoporosis agent) and Mircera (a long-acting erythropoiesis stimulating agent) decreased due to NHI drug price revisions and market penetration of generic drugs.

Meanwhile, compared to the full year forecast announced on February 2, 2023, domestic sales increased by 3.0% to ¥558.0 billion, due to the increased sales of Tamiflu, Polivy, Perjeta (an anti-HER2 humanized monoclonal antibody, anti-cancer agent), Edirol, Enspryng, etc.

Overseas sales
Overseas sales amounted to ¥416.5 billion (an increase of 8.3% year on year). The exports of Hemlibra and Alecensa (an ALK inhibitor, anti-cancer agent) to Roche significantly increased compared to the previous fiscal year.

Meanwhile, compared to the full year forecast announced on February 2, 2023, overseas sales increased by 10.1% to ¥416.5 billion, due to increased sales caused by the increase in exports of Hemlibra to Roche, the currency exchange and other factors.

R&D activities

In Japan and overseas, the Chugai Group ("the Group") is actively engaged in prescription pharmaceutical R&D activities and is working to develop innovative products with global application. In Japan, Chugai Life Science Park Yokohama is conducting drug discovery research, and Chugai's research facilities in Ukima are conducting industrialization research. Overseas, Chugai Pharma USA, Inc. (United States); Chugai Pharma Europe Ltd. (United Kingdom); Chugai Pharma China Co., Ltd. (China); and Chugai Pharma Taiwan Ltd. (Taiwan) are engaged in clinical development and submission of applications in their respective countries and areas. Chugai Pharmabody Research Pte. Ltd. (Singapore) is engaged in drug discovery research.

In the fiscal year under review, R&D expenses on a Core basis totaled ¥162.8 billion (an increase of 13.3% year on year), and the ratio of R&D expenses to revenue was 14.6%.

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

Oncology

- We obtained approval for an antineoplastic agent/anti-HER2 humanized monoclonal antibody/hyaluronan-degradation enzyme combination drug RG6264 (Product name: Phesgo) for the indications of "HER2-positive breast cancer" and "Advanced or recurrent HER2-positive colorectal cancer that has progressed following cancer chemotherapy and is not amenable to curative resection" in September 2023 and launched in November 2023.
- We filed for a humanized anti-human IL-6 receptor monoclonal antibody MRA/RG1569 (Product name: Actemra) for the treatment of cytokine release syndrome induced by cancer treatment in February 2023, and obtained approval for the additional indication in September 2023.
- We filed for an ALK inhibitor AF802/RG7853 (Product name: Alecensa) for the treatment of postoperative adjuvant therapy for *ALK* fusion gene-positive non-small cell lung cancer to the U.S. Food and Drug Administration (FDA), the European Medicines Agency (EMA), and the National Medical Products Administration (NMPA) of People's Republic of China in November 2023, and in Japan in December 2023.
- We started global Phase III study for a selective estrogen receptor degrader RG6171 for the treatment of breast cancer (1st Line-3rd Line), in combination with everolimus in April 2023.
- We started global Phase III study for an anti-TIGIT human monoclonal antibody RG6058 for the treatment of hepatocellular carcinoma (HCC) (1st Line), in combination with RG7446/RG435 in October 2023.
- We started Phase I study for an anti-DLL3/CD3/CD137 trispecific antibody ALPS12/RG6524 for the treatment of solid tumors in January 2023.
- We started Phase I study for an anti-CLDN6/CD3/CD137 trispecific antibody SAIL66 for the treatment of CLDN6 positive solid tumors in April 2023.
- We started Phase I study for ROSE12 for the treatment of solid tumors in June 2023.
- We started Phase I study for an anti-PD-1/LAG-3 bispecific antibody RG6139 for the treatment of solid tumors in August 2023.
- We decided to temporarily suspend the development of an anti-CEA/CD3 bispecific antibody RG7802 for solid tumors in consideration of the results of Phase I study.
- We decided to discontinue the development of an engineered anti-PD-L1 monoclonal antibody RG7446 (Product name: Tecentriq) for NSCLC (2nd Line) in combination with cabozantinib, urothelial carcinoma (1st Line), renal cell carcinoma (2nd Line) in combination with cabozantinib and early breast cancer (adjuvant) in consideration of the results of global Phase III studies CONTACT-01, IMvigor130, CONTACT-03 and IMpassion030, respectively.
- We decided to discontinue the development of an AKT inhibitor RG7440 for prostate cancer (1st Line), in combination with abiraterone in consideration of the results of global Phase III study IPATential150.

Immunology

- We filed for an anti-C5 recycling antibody SKY59/RG6107 for the treatment of paroxysmal nocturnal hemoglobinuria (PNH) in Japan in June 2023. An application for regulatory approval for PNH was submitted to the U.S. FDA and the EMA in June 2023, respectively. We started Phase I study for the treatment of lupus nephritis in February 2023.
- We started global Phase III study for a glycoengineered type II anti-CD20 monoclonal antibody RG7159 (Product name: Gazyva) for the treatment of pediatric nephrotic syndrome in March 2023. Also, we started domestic Phase III study for the treatment of extra renal lupus in October 2023.
- We withdrew the application to EMA for a humanized anti-human IL-6 receptor monoclonal antibody MRA/RG1569 (Product name: Actemra) in systemic sclerosis-associated interstitial lung disease based on the feedback from the Committee for Medicinal Products for Human Use (CHMP).

Neuroscience

- We changed the development stage of an antisense oligonucleotide targeting *HTT* mRNA RG6042 to Phase II following the initiation of global Phase II study for Huntington's disease by Roche in January 2023.
- We started Phase II study for an anti-latent myostatin sweeping antibody GYM329/RG6237 for the treatment of facioscapulohumeral muscular dystrophy (FSHD) in March 2023.
- We started global Phase I/II study for an anti-amyloid beta/TfR1 fusion protein RG6102 for the treatment of Alzheimer's disease in October 2023.
- We decided to discontinue the development of an anti-amyloid-beta human monoclonal antibody RG1450 for Alzheimer's disease in consideration of the results of global Phase III studies GRADUATE1/2.

Hematology

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

Ophthalmology

- We filed for an anti-VEGF/Anti-Ang-2 bispecific antibody RG7716 (Product name: Vabysmo) for the treatment of macular edema associated with retinal vein occlusion in April 2023, and started domestic Phase III study for the treatment of angioid streaks in March 2023.
- We started global Phase III study for an anti-IL-6 monoclonal antibody RG6179 for the treatment of noninfectious uveitic macular edema in June 2023.
- We started global Phase III study for a pH-dependent binding humanized anti-IL-6 receptor monoclonal antibody SA237/RG6168 (Product name: Enspryng) for the treatment of thyroid eye disease (TED) in October 2023.

Other Diseases

- We started Phase I study for REVN24 for the treatment of acute diseases in October 2023.

Note: In (1), amounts less than ¥0.1 billion have been rounded to the nearest ¥0.1 billion. Figures for changes in amounts and percentages have been calculated using data denominated in ¥0.1 billion units.

(2) Overview of financial position for the fiscal year under review in billions of yen

	December 31, 2023	December 31, 2022	Change in amount
Net operating assets (NOA) and Net assets			
Net working capital	422.6	551.6	(129.0)
Long-term net operating assets	478.3	447.8	30.5
Net operating assets (NOA)	**900.9**	**999.3**	**(98.4)**
Net cash	739.0	503.1	235.9
Other non-operating assets – net	(14.3)	(78.1)	63.8
Total net assets	**1,625.6**	**1,424.4**	**201.2**
Consolidated balance sheet (IFRS basis)			
Total assets	1,932.5	1,869.8	62.7
Total liabilities	(307.0)	(445.4)	138.4
Total net assets	1,625.6	1,424.4	201.2

Net operating assets (NOA) at December 31, 2023 were ¥900.9 billion, a decrease of ¥98.4 billion from the end of the previous fiscal year. Of NOA, net working capital was ¥422.6 billion, a decrease of ¥129.0 billion from the end of the previous fiscal year, due to a decrease in accounts receivable from the sales of Ronapreve and others. Long-term net operating assets increased by ¥30.5 billion to ¥478.3 billion since the end of the previous fiscal year, mainly due to the investments in the manufacturing building for active pharmaceutical ingredients (APIs) (FJ3) in the Fujieda Plant, etc.

As indicated in "(3) Overview of cash flows for the fiscal year under review" on the next page, net cash, including marketable securities and interest-bearing debt increased by ¥235.9 billion from the end of the previous fiscal year to ¥739.0 billion. Other non-operating assets – net increased by ¥63.8 billion from the end of the previous fiscal year to ¥(14.3) billion due mainly to a decrease in current income tax liabilities.

As a consequence, total net assets were ¥1,625.6 billion (an increase of ¥201.2 billion since the end of the previous fiscal year).

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

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

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

Note: In (2), amounts less than ¥0.1 billion have been rounded to the nearest ¥0.1 billion. Figures for changes in amounts have been calculated using data denominated in ¥0.1 billion units.

(3) Overview of cash flows for the fiscal year under review in billions of yen

	Year ended December 31		
	2023	2022	% change
Free cash flows			
Operating profit - IFRS basis	439.2	533.3	(17.6)
Operating profit, net of operating cash adjustments	491.5	570.6	(13.9)
Operating free cash flows	540.1	308.4	+75.1
Free cash flows	**363.8**	**166.4**	**+118.6**
Net change in net cash	235.9	31.1	+658.5
Consolidated statement of cash flows (IFRS basis)			
Cash flows from operating activities	409.9	243.6	+68.3
Cash flows from investing activities	(37.3)	(145.5)	(74.4)
Cash flows from financing activities	(139.3)	(145.6)	(4.3)
Net change in cash and cash equivalents	236.5	(45.6)	―
Cash and cash equivalents at December 31	458.7	222.2	+106.4

Operating profit, net of operating cash adjustments, amounted to ¥491.5 billion (a decrease of 13.9% year on year), which was calculated by adjusting for depreciation and other items that are included in operating profit but are not accompanied by cash inflows or outflows and all inflows and outflows related to NOA that are not accompanied by profit and loss.

Operating free cash flows for the fiscal year under review amounted to a net inflow of ¥540.1 billion (an increase of 75.1% year on year) mainly due to a decrease in net working capital, etc. of ¥130.6 billion, despite expenditures of ¥71.9 billion for the purchase of property, plant and equipment, etc. Factors accounting for the decrease in net working capital, etc. are as indicated in "(2) Overview of financial position for the fiscal year under review" on the previous page.

Free cash flows were a net cash inflow of ¥363.8 billion (an increase of 118.6% year on year) due mainly to income taxes paid of ¥176.1 billion from operating free cash flows.

The net change in net cash calculated by subtracting dividends paid of ¥131.6 billion, etc. from free cash flows was an increase of ¥235.9 billion.

The net change in cash and cash equivalents, excluding changes in marketable securities and interest-bearing debt, was a net cash outflow of ¥236.5 billion. The cash and cash equivalents balance at the end of this period amounted to ¥458.7 billion.

Note: Free cash flows (FCF)
The consolidated statement of cash flows has been prepared in accordance with International Accounting Standard (IAS) No. 7, "Statement of Cash Flows." FCF is a reconfiguration of the consolidated statement of cash flows as internal indicators and is identical to the indicators disclosed by Roche. Furthermore, no items from FCF have been excluded, as the Core results concept only applies to the income statement.

For further details, please refer to the Supplementary Materials on page 9, entitled "Cash flows."

*Presentational changes to the consolidated statement of cash flows
As of January 1, 2023, the Group adopted the presentational changes to the consolidated cash flows. For the fiscal year under review, comparative information for the fiscal year ended December 31, 2022 is also presented reflecting these changes.

For further details, please refer to "e. Presentational changes" of "1) General accounting principles and significant accounting policies" on page 23.

Cash flow related indicators

	Year ended December 31			
	2023	2022	2021	2020
Ratio of equity attributable to Chugai shareholders (%)	84.1	76.2	77.2	79.3
Ratio of equity attributable to Chugai shareholders on a market basis (%)	454.8	296.3	399.1	732.2
Interest-coverage ratio (times)	5,029.9	4,171.1	5,861.7	6,067.7

Ratio of equity attributable to Chugai shareholders: Equity attributable to Chugai shareholders / Total assets
Ratio of equity attributable to Chugai shareholders on a market basis: Total market capitalization / Total assets
Interest-coverage ratio: Cash flows / Interest payments

Notes:
1. All of the figures in the aforementioned indicators were calculated on a consolidated basis.
2. Total market capitalization was calculated by multiplying the closing stock price at the end of the period by the total number of outstanding shares at the end of the period (excluding treasury stock).
3. Cash flows from operating activities in the consolidated statement of cash flows were used as cash flows in the calculations above.
4. Interest paid in the consolidated statement of cash flows was used as interest payment in the calculations above.

Note: In (3), amounts less than ¥0.1 billion have been rounded to the nearest ¥0.1 billion. Figures for changes in amounts and percentages have been calculated using data denominated in ¥0.1 billion units.

(4) Future outlook

Forecast assumptions for the next fiscal year (FY2024)

In preparing Chugai performance outlook, Chugai has assumed exchange rates of ¥159/CHF, ¥157/EUR, ¥136/USD, and ¥108/SGD.

Outlook for the fiscal year

Revenues

Revenues are expected to decrease to ¥1,070.0 billion (a decrease of 3.7% year on year).

Of revenues, domestic sales are expected to decrease to ¥454.9 billion (a decrease of 18.5% year on year), due to a decline in sales for the supply of Ronapreve to the government (¥81.2 billion in the previous fiscal year, a decrease of 100.0% year on year), in addition to the NHI drug price revisions and the market penetration of generic drugs, despite the growth in sales volume of new products such as Phesgo and Vabysmo and mainstay products.

Overseas sales are expected to increase to ¥467.1 billion (an increase of 12.1% year on year), due to the significant growth in sales of Hemlibra including the positive effects of depreciation of yen and other factors, despite a decrease in sales of Actemra.

Other revenues are expected to reach ¥148.0 billion (an increase of 8.1% year on year). Royalty and profit-sharing income are forecasted to increase to ¥134.4 billion (an increase of 5.4% year on year), due to an increase in income related to Hemlibra in addition to an increase in one-time income, despite a decrease in income related to Actemra.

Core Operating Profit / Core EPS

Gross profit is expected to be ¥732.5 billion (an increase of 4.7 % year on year), with the assumption that the cost to sales ratio is 36.6%, which is a 5.7 percentage point improvement year on year, due to a change in the product mix, etc., in addition to the above outlook on revenues.

Research and development expenses are expected to increase to ¥171.0 billion (an increase of 5.0% year on year) due to an increase in research and development activities including the investments in drug discovery and early development as well as the progress of development projects, etc., and selling, general and administration expenses are expected to be comparable to the previous fiscal year at ¥102.0 billion. Other operating income (expense) is expected to be ¥0.5 billion of income in total (FY2023: ¥16.1 billion of income, mainly due to the impact of income from disposal of product rights).

As a result, Core operating profit is expected to reach a record high of ¥460.0 billion (an increase of 2.1% year on year) and Core net income is expected to increase for eighth consecutive fiscal years to ¥335.5 billion (an increase of 0.6% year on year). Core EPS of ¥204.00 (an increase of 0.6% year on year) is also expected.

(Billions of yen)

	Outlook for FY 2024	% change
Revenues	1,070.0	(3.7)
Sales	922.0	(5.4)
Core operating profit	460.0	+2.1
Core net income	335.5	+0.6

Note: In (4), amounts less than ¥0.1 billion have been rounded to the nearest ¥0.1 billion. Figures for changes in amounts and percentages have been calculated using data denominated in ¥0.1 billion units.

(5) Basic profit distribution principles and dividends for the fiscal year under review and the following fiscal year

Taking into account strategic funding needs and earnings prospects, Chugai sets a target for consolidated dividend payout ratio of 45% on average in comparison with Core EPS, with an aim to continuously provide a stable allocation of profit to all shareholders. In addition, internal reserves will be used to increase corporate value through investments to attain further growth in existing strategic domains and to identify future business opportunities.

In the fiscal year ended December 31, 2023, Chugai achieved the highest results in the past in Core net income, which resulted in Core EPS increasing by 5.0% year on year.

Reflecting the favorable results and based on our principles of “a stable allocation of profit” and “aiming for a consolidated dividend payout ratio of 45% on average in comparison with Core EPS,” year-end dividends for the fiscal year ended December 31, 2023 are planned to be ¥40 per share. As a result, the annual dividend per share will be ¥80 per share, and the Core dividend payout ratio is 39.5% (an average of 40.9% for the past five years).

For the following fiscal year ending December 31, 2024, Chugai expects annual dividends of ¥82 including interim dividends of ¥41. As a result, the Core dividend payout ratio for 2024 is expected to be 40.2% (40.2% on a five-year average basis).

	Amount decided	Latest forecast for dividend (February 2, 2023)	Actual in the previous fiscal year (ended Dec. 31, 2022)
Record date	December 31, 2023	December 31, 2023	December 31, 2022
Year-end dividends per share	¥40.00	¥40.00	¥40.00
Total dividends	¥65,813 million	—	¥65,801 million
Effective date	March 29, 2024	—	March 31, 2023
Dividend resource	Retained earnings	—	Retained earnings

2. Management Principles and Goals

(1) Basic management principles

In line with its strategic alliance with the world-leading pharmaceutical company Roche, the Group upholds its mission of "dedicating ourselves to adding value by creating and delivering innovative products and services for the medical community and human health around the world" and its Envisioned Future of "becoming a top innovator for advanced and sustainable patient-centric healthcare." Backed by its basic management principles to create shared value and develop hand in hand with society, the Group has developed a value-creation model based on a value-creation framework to bring about the realization of advanced and sustainable patient-centric healthcare.

Under these basic management principles, the Group has organized the elements that are to become the source of shared value creation and identified material issues that should be given priority. In addition to our strategic alliance with Roche, we aim to become a global role model that leads the way in solving social issues represented by ESG and SDGs, including "sustainable healthcare" as stated in our Envisioned Future by focusing on innovation centered on innovative drug discovery based on our unique science and technology capabilities.

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

The Group is convinced that these activities will contribute to enhancing the sustainability of society as a whole, while laying a foundation for the long-term development of the Group.

(2) Target management indicators

The Group places emphasis on increasing corporate value by generating innovation, and prioritizes the allocation of management resources to the development of innovative new drugs. The Group works to conduct flexible and agile business operations, in order to achieve stable profit growth over the short- to medium-term, while focusing on Core ROIC as an indicator of investment efficiency over the long term. In addition, whenever making investment decisions such as individual development projects, the Group carries out an evaluation of investment value based on capital costs, and makes decisions with emphasis on profitability and efficiency.

Chugai has formulated a growth strategy toward 2030, "TOP I 2030" (described later), and is working to achieve the goals of "Double R&D output" and "Launch global in-house products every year." In promoting "TOP I 2030," Chugai has determined to stop formulating medium-term (three years) management plans, and instead it has set and manages goals (in three to five years) as medium-term milestones so that it can fill the gap between the current state and goals by backcasting from the long-term goals. In this way, Chugai aims to achieve its long-term goals while modifying plans in an agile and flexible manner in accordance with the progress of the plans and changes in the environment. Chugai will disclose the status of progress of its medium- to long-term business activities, by explaining the progress of medium-term milestones and the outlook for R&D pipelines, and indicate the path for achieving these objectives. Chugai also plans to continue disclosing single-year earnings forecasts and providing explanation on the management status at briefing sessions and other meetings, in order to report the progress of the business strategies set forth by Chugai in a timely manner.

(3) Management environment and issues to be addressed

The world abounds with diseases that currently have no cure. Moreover, there are growing expectations and needs for pharmaceuticals due to an increase in the world population and progressive demographic graying in each country. In addition, dramatic advances in life sciences, generative AI, and other digital technologies are expanding opportunities to create innovations to solve healthcare issues, including those in other industries. Meanwhile, more and more stringent policies to curb medical expenditures, including drug costs, are being implemented amid the strain on budgets in each country due to an increase in social security costs such as medical expenditures. The realization of sustainable medical care has become a common issue in the world. As such, in order to realize advanced and sustainable medical care with limited resources, the trend toward VBHC (Value Based Healthcare) is steadily gaining momentum, in which only solutions that offer true value are pursued. Additionally, digital companies as well as various other players are now entering the healthcare area, which has given rise to intensification more than ever before of competition beyond the scope of existing industries. Furthermore, with the increasing uncertainty surrounding business operations due to geopolitical risks, energy prices, inflation, and other factors, we are faced with a wide range of issues that need to be addressed in operating businesses including the protection of the earth environment and information security measures.

Under these circumstances, “the pursuit of innovation” is the most important challenge in order to fulfill the Group’s mission of providing innovative drugs. In order to realize optimal medical care for each and every patient, there is a need for the development of new drugs that respond to unmet medical needs through the search for new therapy targets and further innovation in drug discovery technologies. The key to securing a competitive advantage is to acquire and enhance capabilities that break through conventional drug discovery abilities, while flexibly incorporating new technologies that leverage advances in life sciences as well as the evolution of digital technologies such as big data and AI. In addition, amid an increasingly severe business environment for pharmaceutical companies due to increased financial pressure on a worldwide scale, there is even greater need of transformation to a structure that enables concentrated investment of limited resources on innovation.

The Group achieved top-class growth in Japan based on its unique strengths in science and technology and its strategic alliance with Roche. The Group concentrates resources on in-house drug discovery and continuously generates innovative R&D projects, through the business model that leverages the Roche global platform and achieves a high level of productivity in the late-stage development and sales of its own products, while securing a stable revenue foundation on the Japanese market through Roche’s fully stocked pipeline. As a result, the Group’s drug discovery capabilities have been highly evaluated worldwide, with six drugs (including Actemra, Alecensa, Hemlibra, Enspryng and Nemolizumab) generated by Chugai being designated as Breakthrough Therapy* by the U.S. Food and Drug Administration (FDA).

Going forward, the Group will continue to strive to enhance our corporate value and solve social issues through the swift development and delivery of innovative new drugs to patients.

* Breakthrough Therapy: Drug candidates that are expected to be more effective than existing therapies for treating serious or life-threatening diseases or conditions.

(4) Growth strategy for 2030 “TOP I 2030”

With a view toward realizing the Envisioned Future set out in its Mission Statement, the Group has formulated and implemented “TOP I 2030,” a growth strategy to achieve this goal since 2021, while materializing the vision of what it means to be a top innovator by 2030.

Our envisioned Top Innovator in 2030:

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

2. “Attracting talent and players from around the world”
   A company that attracts passionate talent from all over the world, and inspire players involved in healthcare around the world to think they can create something new by partnering with Chugai

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

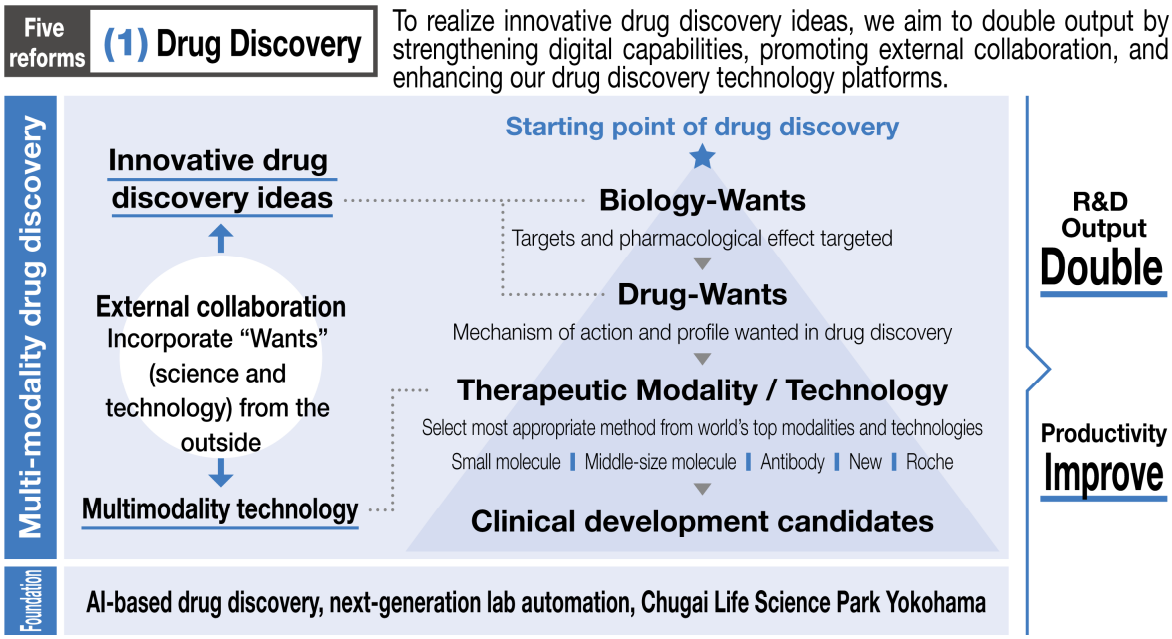
The twin pillars of “TOP I 2030” consist of “Global First-Class Drug Discovery” and “Futuristic Business Model.”

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

The Group will also work on creating an advanced business model that takes into account changes in the environment and technological evolution. In particular, the Group aims to dramatically improve productivity throughout its value chain, and to expand value and product value for each and every patient, by fundamentally restructuring our processes and the value creation model through the utilization of digital technology in all value chains.

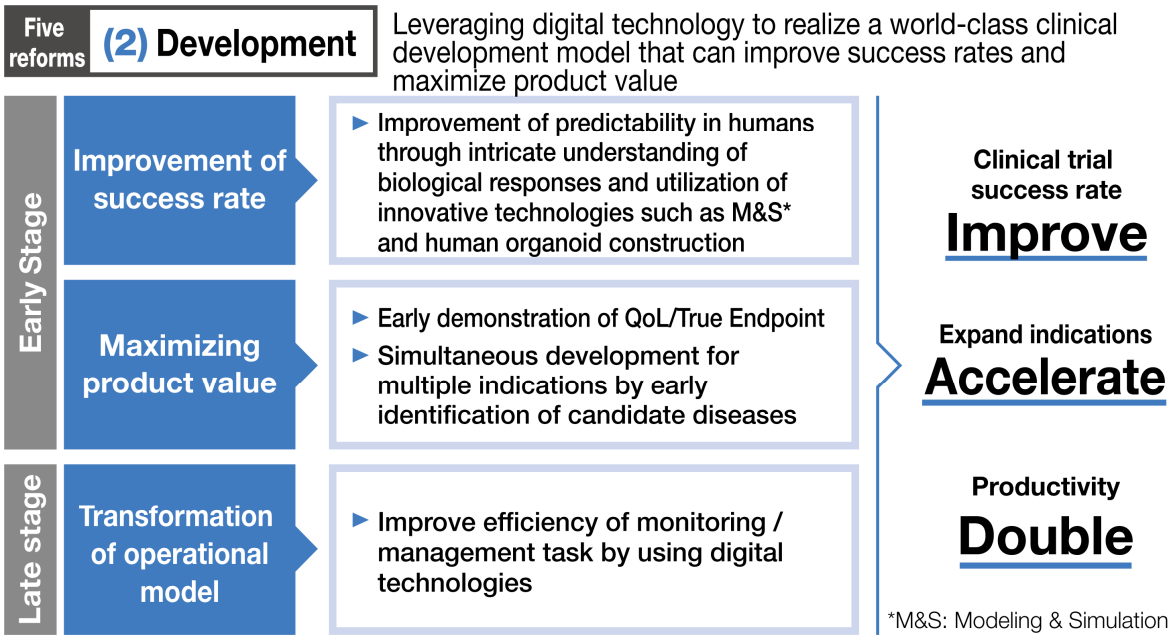
As specific initiatives, the Group has set forth “five reforms” in line with its value chain to realize the twin pillars of the strategy. These reforms comprise “Drug Discovery,” “Development,” “Pharmaceutical Technology,” “Value Delivery” and “Foundation for Growth.”

1) Drug Discovery



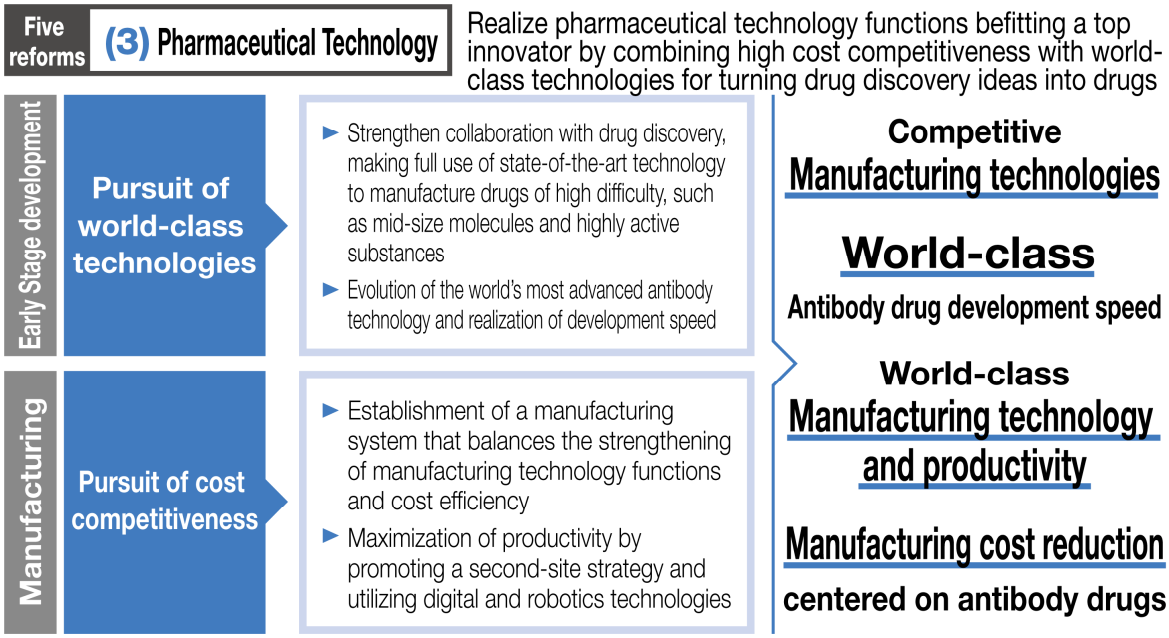
In "TOP I 2030," the Group will aim to further strengthen its drug discovery technology foundation, in order to materialize original drug discovery ideas based on its accumulated strengths in drug discovery, including protein engineering technology. In addition, the Group will concentrate resources on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

2) Development



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

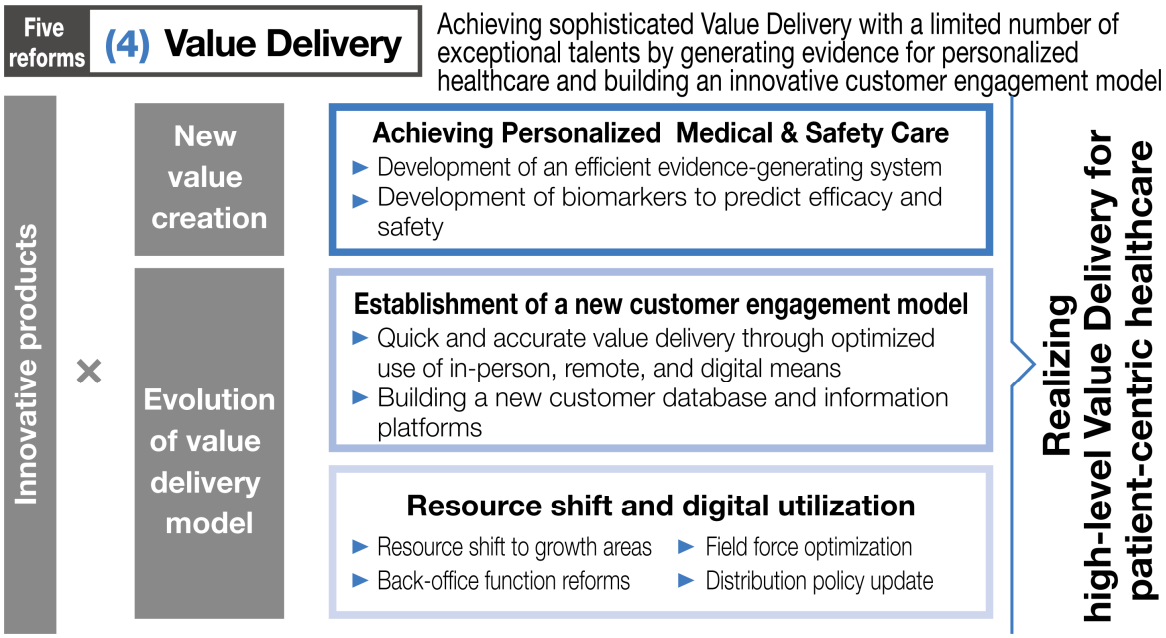
3) Pharmaceutical Technology



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

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

4) Value Delivery

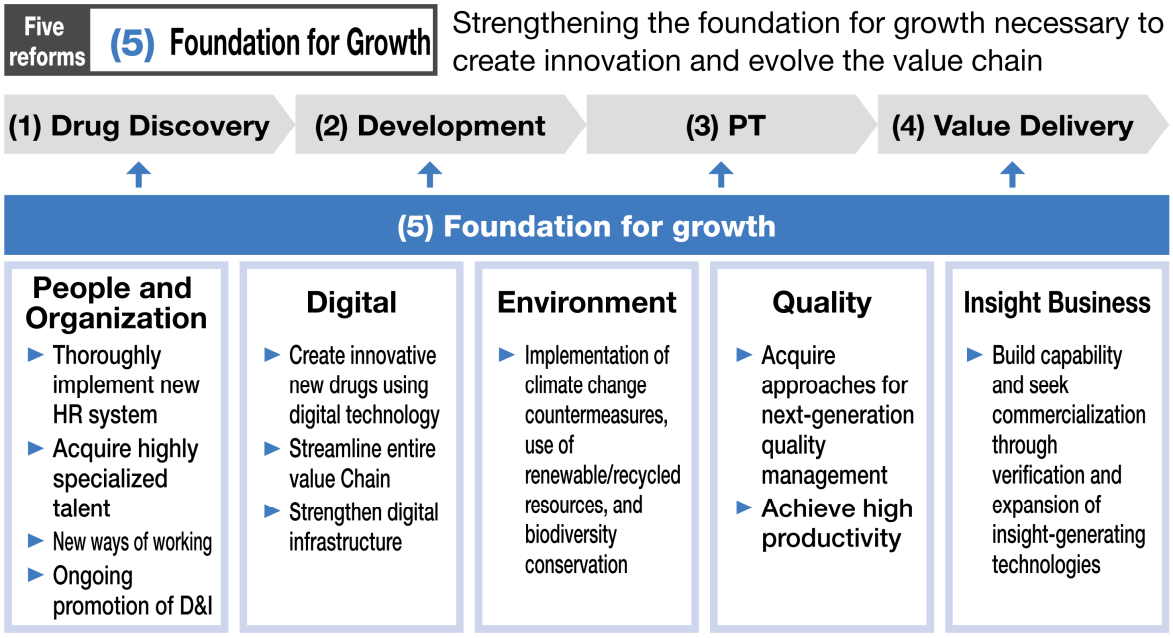


The customer contact points of pharmaceutical companies have also changed significantly owing to the development of digital tools and the impact of the spread of COVID-19. By also taking such changes into account, the Group will aim to establish an innovative customer engagement model, in order to deliver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

In line with changes in its product portfolio, the Group will also work on shifting resources by intensively allocating resources to new and growth areas.

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

5) Foundation for Growth



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

“People and Organization”: Through operation of the personnel system, which commenced in 2020, the Group will promote the assignment of the right personnel to the right positions through further advances in position management and talent management, enhance the corporate culture to encourage personnel to boldly take on challenges and engage in dialogues, and focus on the acquisition, nurturing and provision of a sufficient number of highly specialized human resources, who will be the key in implementing business strategies, such as those in the fields of digital technology and science, including data scientists. At the same time, the Group will strive to foster a culture that creates innovation through ongoing promotion of diversity and inclusion (D&I).

“Digital”: Under “CHUGAI DIGITAL VISION 2030,” the Group will focus on innovative drug discovery by applying digital technologies, while promoting DX in each part of the value chain to improve efficiency. To this end, the Group will build a digital platform for both software and hardware, while establishing a global-level IT infrastructure by integrating various in-house data and building an analysis platform in collaboration with the Roche Group.

“Environment”: The Group will contribute to the realization of a sustainable global environment by setting Mid-Term Environmental Goals 2030 for the three issues identified as material: climate change countermeasures, use of renewable/recycled resources, and protection of biodiversity, and implementing advanced initiatives to achieve them. For climate change countermeasures in particular, the Group will work on long-term programs aimed at achieving the goal of zero CO_2 emissions by 2050.

“Quality”: In addition to measures implemented thus far to ensure product quality, the Group is also working to advance quality management across all business processes and in our responses to pharmaceutical affairs. Furthermore, the Group will also step up the development and implementation of quality management methods that balance both quality and efficiency suited to changing business processes, including responding to regulatory affairs matters that address challenges brought about by new modalities and diverse technological evolution, enhancing digital compliance, and developing a quality assurance system in anticipation of expanded collaboration with external parties.

“Insight Business”: Working in partnership with other Roche Group companies, the Group will collect external data, including real-world data (RWD) and data obtained at each stage of drug discovery, development, pharmaceutical technology, and value delivery, and perform advanced analysis to extract and utilize various insights that contribute to in-house drug discovery and development and maximizing the value of pharmaceuticals.

As stated above, there are currently a large number of unmet medical needs worldwide, for which no treatments yet exist or treatment satisfaction is low, and patients around the world are eagerly awaiting the emergence of effective treatments. Moreover, the roles expected of a company including social expectations regarding the earth environment and human rights as well as social demands such as those of governance and compliance are changing and expanding. The Group intends to proactively engage in the creation of shared value with society through the realization of advanced and sustainable patient-centric healthcare.

3. Basic Approach to the Selection of Accounting Standards

The Group engages actively in international business with the aim of providing a continuous flow of innovative medical products domestically and internationally. These activities include sales of pharmaceuticals and research and development overseas. In light of this, International Financial Reporting Standards (IFRS) has been adopted from the first quarter of the fiscal year ended December 31, 2013 to improve the international comparability of financial information for investors and other users of the financial statements.

4. Consolidated Financial Statements and Major Notes

(1) Consolidated income statement and consolidated statement of comprehensive income

1) Consolidated income statement in millions of yen

	Year ended December 31	
	2023	2022
Revenues	**1,111,367**	**1,259,726**
Sales	974,493	1,039,247
Other revenue	136,874	220,479
Cost of sales	(413,306)	(476,251)
Gross profit	**698,061**	**783,475**
Research and development	(174,868)	(149,626)
Selling, general and administration	(112,580)	(100,477)
Other operating income (expense)	28,561	(64)
Operating profit	**439,174**	**533,309**
Financing costs	(27)	(61)
Other financial income (expense)	4,674	52
Other expense	—	(2,134)
Profit before taxes	**443,821**	**531,166**
Income taxes	(118,349)	(156,737)
Net income	**325,472**	**374,429**
Attributable to:		
Chugai shareholders	325,472	374,429
Earnings per share		
Basic (yen)	197.83	227.64
Diluted (yen)	197.80	227.57

2) Consolidated statement of comprehensive income in millions of yen

	Year ended December 31	
	2023	2022
Net income recognized in income statement	**325,472**	**374,429**
Other comprehensive income		
Remeasurements of defined benefit plans	2,055	3,021
Financial assets measured at fair value through OCI	(168)	(282)
Items that will never be reclassified to the income statement	**1,886**	**2,739**
Financial assets measured at fair value through OCI	6	(13)
Cash flow hedges	(2,121)	(8,759)
Currency translation of foreign operations	7,012	5,540
Items that are or may be reclassified to the income statement	**4,897**	**(3,233)**
Other comprehensive income, net of tax	**6,783**	**(494)**
Total comprehensive income	**332,256**	**373,935**
Attributable to:		
Chugai shareholders	332,256	373,935

(2) Consolidated balance sheet in millions of yen

	December 31, 2023	December 31, 2022
Assets		
Non-current assets:		
Property, plant and equipment	409,939	375,340
Right-of-use assets	10,762	11,311
Intangible assets	19,860	25,141
Deferred tax assets	64,474	65,244
Defined benefit plan assets	7,481	5,172
Other non-current assets	53,605	51,013
Total non-current assets	**566,121**	**533,221**
Current assets:		
Inventories	273,480	292,206
Accounts receivable	318,892	512,538
Current income tax assets	1,456	1,745
Marketable securities	280,308	280,938
Cash and cash equivalents	458,674	222,169
Other current assets	33,616	26,941
Total current assets	**1,366,426**	**1,336,537**
Total assets	**1,932,547**	**1,869,758**
Liabilities		
Non-current liabilities:		
Deferred tax liabilities	(5,787)	(7,086)
Defined benefit plan liabilities	(3,146)	(3,311)
Long-term provisions	(2,593)	(2,756)
Other non-current liabilities	(7,224)	(8,489)
Total non-current liabilities	**(18,750)**	**(21,641)**
Current liabilities:		
Current income tax liabilities	(40,798)	(98,543)
Short-term provisions	(3,442)	(1,980)
Accounts payable	(112,468)	(209,835)
Other current liabilities	(131,510)	(113,372)
Total current liabilities	**(288,217)**	**(423,730)**
Total liabilities	**(306,967)**	**(445,372)**
Total net assets	**1,625,580**	**1,424,387**
Equity:		
Capital and reserves attributable to Chugai shareholders	1,625,580	1,424,387
Total equity	**1,625,580**	**1,424,387**
Total liabilities and equity	**1,932,547**	**1,869,758**

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

	Year ended December 31	
	2023	2022
Cash flows from operating activities		
Cash generated from operations	462,722	575,345
(Increase) decrease in working capital	130,634	(183,311)
Payments made for defined benefit plans	(2,887)	(3,739)
Utilization of provisions	(2,227)	(1,634)
Other operating cash flows	(2,244)	9,004
Cash flows from operating activities, before income taxes paid	**585,998**	**395,665**
Income taxes paid	(176,074)	(152,082)
Total cash flows from operating activities	**409,925**	**243,582**
Cash flows from investing activities		
Purchase of property, plant and equipment	(71,948)	(62,625)
Purchase of intangible assets	(2,310)	(8,614)
Disposal of property, plant and equipment	19,346	1,048
Disposal of intangible assets	15,160	530
Interest and dividends received	1,482	281
Purchases of marketable securities	(545,705)	(518,681)
Sales of marketable securities	546,620	442,768
Purchases of investment securities	(278)	(321)
Sales of investment securities	342	151
Total cash flows from investing activities	**(37,290)**	**(145,465)**
Cash flows from financing activities		
Interest paid	(81)	(58)
Lease liabilities paid	(7,868)	(7,599)
Dividends paid to Chugai shareholders	(131,594)	(138,220)
Exercise of equity compensation plans	217	241
(Increase) decrease in own equity instruments	(5)	(5)
Total cash flows from financing activities	**(139,331)**	**(145,641)**
Net effect of currency translation on cash and cash equivalents	3,202	1,939
Increase (decrease) in cash and cash equivalents	**236,505**	**(45,584)**
Cash and cash equivalents at January 1	222,169	267,753
Cash and cash equivalents at December 31	**458,674**	**222,169**

(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, 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	—	—	—	(296)	(296)	(296)
Cash flow hedges	—	—	—	(8,759)	(8,759)	(8,759)
Currency translation of foreign operations	—	—	—	5,540	5,540	5,540
Remeasurements of defined benefit plans	—	—	3,021	—	3,021	3,021
Total comprehensive income	**—**	**—**	**377,450**	**(3,515)**	**373,935**	**373,935**
Dividends	—	—	(138,148)	—	(138,148)	(138,148)
Equity compensation plans	—	(379)	—	—	(379)	(379)
Own equity instruments	—	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**
Year ended December 31, 2023						
At January 1, 2023	**73,202**	**68,806**	**1,293,352**	**(10,973)**	**1,424,387**	**1,424,387**
Net income	—	—	325,472	—	325,472	325,472
Financial assets measured at fair value through OCI	—	—	—	(163)	(163)	(163)
Cash flow hedges	—	—	—	(2,121)	(2,121)	(2,121)
Currency translation of foreign operations	—	—	—	7,012	7,012	7,012
Remeasurements of defined benefit plans	—	—	2,055	—	2,055	2,055
Total comprehensive income	**—**	**—**	**327,527**	**4,729**	**332,256**	**332,256**
Dividends	—	—	(131,612)	—	(131,612)	(131,612)
Equity compensation plans	—	17	—	—	17	17
Own equity instruments	—	533	—	—	533	533
Transfer from other reserves to retained earnings	—	—	(529)	529	—	—
At December 31, 2023	**73,202**	**69,355**	**1,488,738**	**(5,715)**	**1,625,580**	**1,625,580**

(5) Notes regarding the going concern assumption
None

(6) Notes regarding the consolidated financial statements
1) General accounting principles and significant accounting policies
a. Basis of preparation of the consolidated financial statements
These financial statements are the annual consolidated financial statements ("Consolidated Financial Statements") of Chugai, a company registered in Japan, and its subsidiaries ("the Group"). The common stock of Chugai is publicly traded and listed on the Tokyo Stock Exchange under the stock code "TSE: 4519." The Consolidated Financial Statements were approved by Board of Directors on February 1, 2024.

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% (61.12% of the total number of shares issued excluding treasury stock). The Group became principal members of the Roche Group after entering into a strategic alliance in October 2002.

The Group meets all of the requirements for a "Specified Company under Designated International Financial Reporting Standards" as stipulated under Article 1-2 of the "Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (Ministry of Finance of Japan Ordinance No. 28, 1976, "the Ordinance"). Hence, in accordance with Article 93 of the Ordinance, the Consolidated Financial Statements have been prepared in accordance with IFRS.

The Consolidated Financial Statements are presented in Japanese yen, which is Chugai's functional currency and amounts are rounded to the nearest ¥1 million. They have been prepared using the historical cost convention except for items that are required to be accounted for at fair value.

b. Key accounting judgments, estimates and assumptions
The preparation of the Consolidated Financial Statements requires management to make judgments, estimates, and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities, and contingent amounts. Actual outcomes could differ from those management estimates. The estimates and underlying assumptions are reviewed on an on-going basis and are based on historical experience and various other factors. Revisions to estimates are recognized in the period in which the estimate is revised.

The information for judgment, estimates, and assumptions that have a material impact on the amount recognized in the Consolidated Financial Statements of the Group is principally the same for the prior fiscal year.

c. Significant accounting policies
The Group applies the same significant accounting policies that were applied to the Consolidated Financial Statements of the previous fiscal year, except for those stated in d. Changes in accounting policies.
Although minor changes have been made to certain accounting standards, they do not have a material impact on the Group's overall results and financial position.

d. Changes in accounting policies
The Group has adopted the amendments to IAS 12 'Income Taxes' relating to 'International Tax Reform – Pillar Two Model Rules' issued in May 2023. The Group has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

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

For the fiscal year under review, the comparative information for the fiscal year ended December 31, 2022 is also presented reflecting these changes.

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

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

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

(a) "Royalties and other operating income" and "other revenue," which had previously been reported under revenue have been changed to "other revenue," while income from disposal of product rights has been excluded therefrom.
As a result, in the consolidated income statement for the fiscal year ended December 31, 2022, "other revenue" decreased by ¥220 million.
In conjunction with this change, cash flows associated with income from disposal of product rights, which had previously been classified as "cash flows from operating activities" have been classified as "cash flows from investing activities."
As a result, in the consolidated statement of cash flows for the fiscal year ended December 31, 2022, ¥530 million, which had been presented under "cash flows from operating activities" was restated as "cash flows from investing activities."

(b) "Other revenue" includes royalty income, profit-sharing income, other operating income, and other revenue.

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

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

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

f. 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, 2024 and beyond. Based on the analysis to date, the Group does not anticipate that these will have a material impact on the Group's overall results and financial position.

2) Operating segment information

The Group has a single business of pharmaceuticals and does not have multiple operating segments. The Group's pharmaceuticals business consists of research and development of new prescription medicines and subsequent manufacturing, marketing and distribution activities. These functional activities are integrated and managed effectively.

As stated in the "Presentational changes," starting from the fiscal year under review, "royalties and other operating income" and "other revenue," which had previously been reported under revenue have been changed to "other revenue," while income from disposal of product rights has been excluded therefrom.

As a result of this change, "other revenue" decreased by ¥220 million compared to that in which the previous method was applied.

Information on revenues by geographical area in millions of yen

	2023		2022	
	Sales	Other revenue	Sales	Other revenue
Japan	557,996	1,237	654,663	2,391
Overseas	416,496	135,637	384,584	218,088
of which Switzerland	389,151	122,729	358,128	124,608
Total	**974,493**	**136,874**	**1,039,247**	**220,479**

Information by major customer in millions of yen

	2023	2022
F. Hoffmann-La Roche Ltd.	511,881	482,737
Ministry of Health, Labour and Welfare	85,542	203,655
Alfresa Corporation	81,155	91,655

3) Other operating income (expense)

The breakdown of other operating income (expense) is as follows.

	2023	2022
Other operating income (expenses) (millions of yen)		
Other operating income	29,182	2,467
Other operating expenses	(621)	(2,530)
Total	**28,561**	**(64)**

Among other operating income for the fiscal year under review, the major components were ¥14,677 million of income from disposal of product rights and ¥13, 910 million of gain on sales of non-current assets.

4) Other expense

Chugai filed the Advance Pricing Arrangement covering certain transactions with F. Hoffmann-La Roche Ltd., to Japanese and Swiss tax authorities and received a notice of agreement. In the previous fiscal year, Chugai received a revised notice of agreement from both tax authorities which includes the instruction that the taxable income of Chugai shall be decreased by a certain amount and that of Roche shall be increased by the same amount in each of the fiscal years 2017 and 2018 during the period in question.

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, it posted ¥2,134 million of adjustment from transfer pricing taxation in the previous fiscal year. In the fiscal year under review, no adjustment from transfer pricing taxation was incurred.

5) Earnings per share

Basic earnings per share

	2023	2022
Net income attributable to Chugai shareholders (millions of yen)	**325,472**	**374,429**
Weighted average number of common stock	1,679,057,667	1,679,057,667
Weighted average number of treasury stock	(33,848,851)	(34,259,939)
Weighted average number of shares in issue	**1,645,208,816**	**1,644,797,728**
Basic earnings per share (yen)	**197.83**	**227.64**

Diluted earnings per share

	2023	2022
Net income attributable to Chugai shareholders (millions of yen)	**325,472**	**374,429**
Weighted average number of shares in issue	1,645,208,816	1,644,797,728
Adjustment for assumed exercise of equity compensation plans, where dilutive	290,167	540,204
Weighted average number of shares in issue used to calculate diluted earnings per share	**1,645,498,983**	**1,645,337,932**
Diluted earnings per share (yen)	**197.80**	**227.57**

There were no stock options that were eliminated from the weighted average number of shares in issue used to calculate diluted earnings per share since they do not have dilutive effects.

6) 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

	2023	2022
Net income	325,472	374,429
Financing costs	27	61
Other financial income (expense)	(4,674)	(52)
Other expense	—	2,134
Income taxes	118,349	156,737
Operating profit	**439,174**	**533,309**
Depreciation of property, plant and equipment	24,318	23,690
Depreciation of right-of-use assets	4,828	4,717
Amortization of intangible assets	2,594	3,027
Impairment of property, plant and equipment	706	8
Impairment of intangible assets	5,052	633
Operating expense for defined benefit plans	3,456	4,721
Operating expense for equity-settled equity compensation plans	338	344
Net (income) expense for provisions	3,366	1,627
Inventory write-downs	4,593	2,482
Net (gain) loss on disposal of property, plant and equipment	(12,479)	(590)
Net (gain) loss on disposal of intangible assets	(15,160)	(530)
Other adjustments	1,934	1,907
Cash generated from operations	**462,722**	**575,345**

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

	2023	2022
Interest received	1,482	278
Dividends received	1	3
Total	**1,482**	**281**

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 (2022: none).

As stated in "Presentational changes," starting from the fiscal year under review, cash flows associated with income from disposal of product rights, which had previously been classified as "cash flows from operating activities" have been classified as "cash flows from investing activities." In conjunction with this change, in the consolidated statement of cash flows for the fiscal year ended December 31, 2022, ¥530 million, which had been presented under "cash flows from operating activities" was restated as "cash flows from investing activities."

7) Related parties

a. Controlling shareholder

Effective from October 2002, Roche and Chugai concluded an alliance to create a leading research-driven Japanese pharmaceutical company, which was formed by the merger of Chugai and Roche's Japanese pharmaceuticals subsidiary, Nippon Roche. Through the merger, Chugai become a principal member of the Roche Group as the surviving company.

Chugai has entered into certain agreements with Roche, which are discussed below:

Basic Alliance Agreement: As part of the Basic Alliance Agreement signed in December 2001, Roche and Chugai entered into certain arrangements covering the future operation and governance of Chugai. Amongst other matters, these cover the following areas:

- The structuring of the alliance.
- Roche's rights as a shareholder.
- Roche's rights to nominate members of Chugai's Board of Directors.
- Certain limitations to Roche's ability in transactions to buy or sell Chugai's common stock.

Chugai may issue additional shares of common stock in connection 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 held by Roche.

The Rest of the World Umbrella Rights Agreement (excluding Japan and South Korea) signed in May 2002 was revised and the Amended and Restated Rest of the World Umbrella Rights Agreement (excluding Japan, South Korea and Taiwan) was signed in August 2014. Under this Agreement, Roche has the right of first refusal on the development and marketing of Chugai's development compounds in markets outside Japan, excluding South Korea and Taiwan.

Further to these agreements, Roche and Chugai have signed a series of separate agreements for certain specific products. Depending on the specific circumstances and the terms of the agreement, this may result in payments on an arm's length basis between Roche and Chugai, for any or all of the following matters:

- Upfront payments, if a right of first refusal to license a product is exercised.
- Milestone payments, dependent upon the achievement of agreed performance targets.
- Royalties on future product sales.

These specific product agreements may also cover the manufacture, supply etc. of the respective products to meet the other party's clinical and/or commercial requirements on an arm's length basis.

Research Collaboration Agreements: Roche and Chugai have entered into research collaboration agreements in the areas of small-molecule synthetic drug research and biotechnology-based drug discovery.

Dividends: The dividends distributed to Roche by Chugai in respect to its holdings of Chugai shares totaled ¥80,454 million (2022: ¥84,476 million).

b. Material transactions and balances with related parties

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

	2023	2022
Revenues	511,881	482,737
Purchases	272,122	398,245

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

	December 31, 2023	December 31, 2022
Accounts receivable	164,696	194,485
Trade accounts payable	40,491	121,185

c. Remuneration of key management personnel

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

	2023	2022
Board of Directors		
－Regular remuneration	265	243
－Bonuses	151	140
－Tenure-based restricted stock compensation	102	65
－Performance-based restricted stock compensation	74	68
Total	**591**	**516**
Audit & Supervisory Board		
－Regular remuneration	115	101
Total	**115**	**101**

8) Subsequent events

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