

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)

(through the second quarter of fiscal year 2013)

Name of Company: Chugai Pharmaceutical Co., Ltd. July 25, 2013
 Stock Listing: Tokyo Stock Exchange
 Security Code No.: 4519 (URL <http://www.chugai-pharm.co.jp/english>)
 Representative: Osamu Nagayama, Representative Director, Chairman & CEO
 Contact: Masahiko Uchida, General Manager of Corporate Communications Department
 Phone: +81-(0) 3-3273-0881
 Date of Submission of Quarterly Marketable Securities Filings: July 31, 2013
 Date on which Dividend Payments to Commence: August 30, 2013
 Supplementary Materials Prepared for the Quarterly Financial Statements: Yes
 Presentation Held to Explain the Quarterly Financial Statements: Yes (for institutional investors and analysts)

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

1. Consolidated results through the second quarter of FY 2013 (January 1, 2013–June 30, 2013)

(1) Consolidated results (Income: cumulative)

	Revenues	% change	Operating profit	% change	Profit before taxes	% change
First six months of FY 2013	¥201,016 million	8.4	¥38,120 million	4.7	¥36,946 million	5.1
First six months of FY 2012	¥185,452 million	—	¥36,414 million	—	¥35,155 million	—

	Net income	% change	Net income attributable to Chugai shareholders	% change	Total comprehensive income	% change
First six months of FY 2013	¥25,261 million	14.7	¥24,748 million	14.4	¥30,298 million	35.1
First six months of FY 2012	¥22,023 million	—	¥21,630 million	—	¥22,431 million	—

	Net income per share (Basic)	Net income per share (Diluted)
First six months of FY 2013	¥45.46	¥45.41
First six months of FY 2012	¥39.75	¥39.73

Notes: 1. Percentages represent changes compared with the same period of the previous fiscal year.

2. The item “Attributable to Chugai shareholders” excludes the portion attributable to non-controlling interests, and is presented as “Attributable to Chugai shareholders” in the accompanying materials.

(2) Consolidated results (Balance sheet)

	Total assets	Total equity	Equity attributable to Chugai shareholders	Ratio of equity attributable to Chugai shareholders
As of June 30, 2013	¥654,495 million	¥548,793 million	¥547,437 million	83.6%
As of Dec. 31, 2012	¥645,325 million	¥529,161 million	¥527,961 million	81.8%

Note: The item “Attributable to Chugai shareholders” excludes the portion attributable to non-controlling interests, and is presented as “Attributable to Chugai shareholders” in the accompanying materials.

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. 2012	—	¥20.00	—	¥20.00	¥40.00
FY ending Dec. 2013	—	¥22.00			
FY ending Dec. 2013 (Forecast)			—	¥23.00	¥45.00

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

3. Consolidated forecasts for FY 2013 (January 1, 2013–December 31, 2013)

	Revenues	Achievement/ % change	Core operating profit	Achievement/ % change	Core EPS	Achievement/ % change	Core payout ratio (%)
First six months of FY 2013 (Results)	¥201,016 million	48.3	¥38,696 million	49.9	¥46.06	49.8	—
FY ending Dec. 2013 (Forecast)	¥416,000 million	7.6	¥77,500 million	2.5	¥92.57	8.1	48.6

Notes: 1. Percentages shown for forecasts of revenues and core operating profit represent changes from the same period of the previous fiscal year. Percentages for results represent the percentage of forecast levels that have been achieved to date.

2. Whether the most recent forecasts for consolidated figures have been revised: No

3. The figures for the consolidated forecasts presented above are calculated as forecasts and actual figures based on Core basis indicators established by the Company and used on a consistent basis.

Notes:

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

(2) Changes in accounting principles and changes in accounting estimates

(a) Changes in accounting principles required by IFRS: None

(b) Changes in accounting principles other than those in (a) above: None

(c) Changes in accounting estimates: None

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

(a) Number of shares at the end of the period (including treasury stock)

(b) Number of treasury stock at the end of the period

(c) Average number of shares issued during the period (six months)

Second quarter of FY 2013	559,685,889	FY 2012	559,685,889
Second quarter of FY 2013	15,076,660	FY 2012	15,440,438
Second quarter of FY 2013	544,405,164	Second quarter of FY 2012	544,199,915

Items related to the status of the implementation of quarterly reviews

At the time of disclosure of these quarterly consolidated financial statements, review procedures were in progress for the quarterly financial statements based on the Financial Instruments and Exchange Act.

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

- (1) The Company has applied International Financial Reporting Standards ('IFRS') from the first quarter of the fiscal year ending December 31, 2013. In addition, the consolidated financial statements for the same quarters of the previous year and for the previous fiscal year have been prepared in accordance with IFRS.*
- (2) 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 materially differ from these forecasts due to potential risks and uncertainties.*
- (3) The forecast which is published for shareholders and investors is based on the internal management indicator Core basis. The difference between IFRS results and Core results will be explained at each quarterly event and presentation.*
- (4) For the specifics of the forecasts, please refer to the items "1. Qualitative Information, (3) "Forecast for Consolidated Performance" on page 7.*
- (5) Please refer to "Notice concerning adoption of International Financial Reporting Standards (IFRS)" <http://www.chugai-pharm.co.jp/html/press/pdf/2012/121214eSupplementaryMaterials.pdf> on pages 11-13 for details of Core basis.*
- (6) The Company is scheduled to hold a presentation for investors as noted below. The materials used for the presentation, the streaming video, the Q&A, and other related documents will be posted on the Company's website immediately following the conclusion of the presentation. Presentation for institutional investors and analysts (Japanese only): July 26, 2013, Friday (Japan time)*

Index of the Attachment

1. Qualitative Information	2
(1) Qualitative Information regarding Operating Results (Consolidated)	2
(2) Qualitative Information regarding Financial Condition (Consolidated)	5
(3) Qualitative Information regarding the Forecast for Consolidated Performance	7
2. Other Information	7
(1) Changes in the State of Material Subsidiaries during the Period	7
(2) Changes in Accounting Principles and Changes in Accounting Estimates	7
3. Interim Condensed Consolidated Financial Statements	8
(1) Interim Condensed Consolidated Statement of Income and Interim Condensed Consolidated Statement of Comprehensive Income	8
(2) Interim Condensed Consolidated Balance Sheet	10
(3) Interim Condensed Consolidated Statement of Cash Flows	12
(4) Interim Condensed Consolidated Statement of Changes in Equity	13
(5) Notes regarding the Assumption as a Going Concern	15
(6) Notes regarding the Interim Condensed Consolidated Financial Statements	15

1. Qualitative Information**(1) Qualitative Information regarding Operating Results (Consolidated)**

(Billions of Yen)

	First six months of FY 2013.12 (Jan. 1, 2013–June 30, 2013)	First six months of FY 2012.12 (Jan. 1, 2012–June 30, 2012)	% change
Core results			
Revenues	201.0	185.5	+8.4
Sales (excluding Tamiflu)	179.8	171.9	+4.6
Tamiflu sales	9.0	8.1	+11.1
Royalties and other operating income	12.2	5.4	+125.9
Cost of sales	(87.9)	(81.3)	+8.1
Gross profit	113.1	104.2	+8.5
Marketing and distribution	(34.0)	(32.2)	+5.6
Research and development	(34.8)	(31.1)	+11.9
General and administration	(5.7)	(4.0)	+42.5
Operating profit	38.7	36.9	+4.9
Net income	25.6	22.3	+14.8
IFRS results			
Revenues	201.0	185.5	+8.4
Operating profit	38.1	36.4	+4.7
Net income	25.3	22.0	+15.0

Consolidated financial highlights (IFRS results)

Operating profit through the second quarter was ¥38.1 billion (an increase of 4.7% year on year), and net income through the second quarter was ¥25.3 billion (an increase of 15.0% year on year). These results include non-Core items, such as intangible assets amortization of ¥0.5 billion, restructuring expenses of ¥0.2 billion, and other items, which are excluded from the Core results.

Consolidated financial highlights (Core results)

Revenues through the second quarter were ¥201.0 billion (an increase of 8.4% year on year), offsetting the effects of the National Health Insurance (NHI) drug price revisions and the completion of the sales agreement of Evista (an agent for the treatment of osteoporosis) under which this product is no longer sold by Chugai. Sales excluding Tamiflu, comprising product sales and royalties and other operating income, were ¥179.8 billion (an increase of 4.6% year on year) through the second quarter.

Royalties and other operating income doubled year on year because of the rise in milestone revenues and an increase in royalties and profit sharing income received related to overseas sales of Actemra (a humanized anti-human IL-6 receptor monoclonal antibody) by the Roche Group (hereinafter, Roche).

Gross profit was ¥113.1 billion (an increase of 8.5% year on year). This increase was mainly due to the rise in the cost of sales ratio caused by depreciation of the yen and changes in the product mix, bringing the cost of sales to ¥87.9 billion (an increase of 8.1% year on year).

Marketing and distribution expenses were ¥34.0 billion (an increase of 5.6% year on year), mainly due to the rise in expenses of overseas sales companies owing to the depreciation of the yen and other factors. Research and development expenditures were ¥34.8 billion (an increase of 11.9% year on year) as a result of the depreciation of the yen and the full operation of CPR (Chugai Pharmabody Research Pte. Ltd.). General and administrative expenses were ¥5.7 billion (an increase of 42.5% year on year), due to

the rise in various expenses.

As a consequence, Core operating profit was ¥38.7 billion (an increase of 4.9% year on year), and Core net income for the quarter was ¥25.6 billion (an increase of 14.8% year on year). As a result of the changes in the taxation system (resulting in the incurrence of one-time expenses in the same period of the previous year and a reduction in the tax rate that became effective in the quarter under review), there is a significant difference in year on year growth of net income compared to that of the operating profit.

Note: Core results

Chugai Pharmaceutical Co., Ltd. (“Chugai” or “the Company”) discloses its results on a Core basis, in addition to the IFRS results, from 2013 in conjunction with its decision to apply IFRS. Core results are the results after adjusting non-Core items of the Company to IFRS results, as well as realignment with the Core concept disclosed by Roche. Core results are used by the Company as an internal performance indicator, to help explain the underlying business performance both internally and externally, and as the basis for performance evaluation and the payout ratio.

For further details regarding the adjustment to IFRS results, please refer to the appendix section on page 5, entitled “Reconciliation of IFRS results to Core results.”

Sales by product domain

(Billions of Yen)

	First six months of FY 2013.12 (Jan. 1, 2013–June 30, 2013)	First six months of FY 2012.12 (Jan. 1, 2012–June 30, 2012)	% change
Sales	188.8	180.1	+4.8
Domestic sales (excluding Tamiflu)	152.0	150.5	+1.0
Oncology	78.7	72.4	+8.7
Bone and joint disease	27.5	30.3	(9.2)
Renal diseases field	22.5	22.9	(1.7)
Transplant, immunology, and infectious disease	9.2	9.8	(6.1)
Others	14.2	15.0	(5.3)
Tamiflu sales	9.0	8.1	+11.1
Ordinary use	8.2	7.8	+5.1
Government stockpiles etc.	0.8	0.4	+100.0
Overseas sales	27.8	21.5	+29.3

Domestic sales (excluding Tamiflu)

Domestic sales through the second quarter, excluding Tamiflu, were ¥152.0 billion (an increase of 1.0% year on year). Overall sales increased, despite the completion of the sales agreement for Evista and the effects of the NHI drug price revisions, because of steady growth in the oncology field, including Avastin (an anti-vascular endothelial growth factor (VEGF) humanized monoclonal antibody, anti-cancer agent), and contributions from new products, including Ediol (an active vitamin D3 derivative) and Actemra, which in May launched a new formulation. Excluding the impact of Evista, the pace of growth in the remaining products was 6.4% year on year, indicating continued strong sales performance.

Oncology product sales through the second quarter continued to rise, to ¥78.7 billion (an increase of 8.7% year on year). This increase was due to steady expansion in sales of Avastin, Herceptin (an anti-HER-2-humanized monoclonal antibody, anti-cancer agent), and other major oncology drugs.

Bone and joint disease product sales were ¥27.5 billion (a decrease of 9.2% year on year). Although sales of Ediol and Actemra showed significant expansion, this was offset by effects of the completion of the sales agreement for Evista.

Renal diseases product sales totaled ¥22.5 billion (a decrease of 1.7% year on year). On the one hand, sales of Mircera (a long-lasting erythropoietin-stimulating agent) expanded about 30% year on year in the market for drug stocks; on the other hand, sales of Epogin (a recombinant human erythropoietin) decreased significantly because of the switching to Mircera and intensified competition, including the impact from follow-on biologics (biosimilars).

In the area of transplant, immunology, and infectious diseases products (excluding Tamiflu), sales were ¥9.2 billion (a decrease of 6.1% year on year). This decline was due to decreased sales of Pegasys (a peginterferon- α -2a) and Copegus (an anti-viral agent), owing to the shrinkage in the market for interferon agents.

Tamiflu (an anti-influenza agent)

Sales of Tamiflu for ordinary use amounted to ¥8.2 billion (a 5.1% increase year on year). Sales to government stockpiles etc. amounted to ¥0.8 billion (an increase of 100.0% year on year).

Overseas sales

Overseas sales were ¥27.8 billion (an increase of 29.3% year on year), due to the depreciation of the yen and an increase in the

volume of shipments of Actemra to Roche.

(2) Qualitative Information regarding Financial Condition (Consolidated)

Assets, Liabilities, and Net Assets

(Billions of Yen)

	June 30, 2013	December 31, 2012	% change
Movements of assets and liabilities			
Net working capital	171.1	157.9	+8.4
Long-term net operating assets	145.0	150.0	(3.3)
Net operating assets (NOA)	316.1	307.9	+2.7
Net cash	223.2	211.7	+5.4
Other non-operating assets - net	9.6	9.6	0.0
Total net assets	548.8	529.2	+3.7
Consolidated balance sheet (IFRS basis)			
Total assets	654.5	645.3	+1.4
Total liabilities	(105.7)	(116.2)	(9.0)
Total net assets	548.8	529.2	+3.7

Net working capital at June 30, 2013, was ¥171.1 billion (an increase of ¥13.2 billion since December 31, 2012). This was due to a decrease in trade accounts receivable, because of appropriate adjustments in procurement timing in view of inventory levels, demand forecasts, and other factors, an increase in inventories accompanying expansion in the scale of major product sales, and other factors. In addition, long-term net operating assets were ¥5.0 billion lower than at the end of the previous fiscal year, because of a decrease in tangible fixed assets accompanying depreciation and other factors, and stood at ¥145.0 billion at the end of the period under review. As a result, net operating assets (NOA) were ¥316.1 billion, ¥8.2 billion higher than at the end of the previous fiscal year.

As the table entitled “Cash Flows” on page 6 indicates, net cash, including securities and interest bearing-liabilities, increased ¥11.5 billion, to ¥223.2 billion. Also, other non-operating assets-net which amounted to ¥9.6 billion, were approximately level with the end of the previous fiscal year.

As a consequence, total net assets were ¥548.8 billion (an increase of ¥19.6 billion since December 31, 2012).

Note: Movements of assets and liabilities

The consolidated balance sheet has been prepared in accordance with the International Accounting Standards (IAS) No. 1, “Presentation of Financial Statements”. On the other hand, “Movement of assets and liabilities” including net operating assets (NOA) are an independent reconfiguration of the consolidated balance sheet and are consistent with the NOA concepts disclosed by Roche. Furthermore, no items from the assets and liabilities of IFRS have been excluded, as the Core results concept only applies to the income statement.

For further details, please refer to the appendix section on page 8, “Movements of assets and liabilities (Assets, Liabilities, and Net Assets).”

Cash Flows

(Billions of Yen)

	First six months of FY 2013.12 (Jan. 1, 2013–June. 30, 2013)	First six months of FY 2012.12 (Jan. 1, 2012–June 30, 2012)	% change
Movements of free cash flows			
Operating profit - IFRS basis	38.1	36.4	+4.7
Operating cash flows after adjustments	47.2	41.5	+13.7
Operating free cash flows	30.6	56.9	(46.2)
Free cash flows	7.8	31.5	(75.2)
Net change in net cash	11.5	31.2	(63.1)
Consolidated statement of cash flows (IFRS basis)			
Cash flows from operating activities	26.0	50.3	(48.3)
Cash flows from investing activities	(11.3)	(15.8)	(28.5)
Cash flows from financing activities	(10.9)	(11.4)	(4.4)
Net change in cash and cash equivalents	5.0	23.0	(78.3)
Cash and cash equivalents at June 30	100.5	117.5	(14.5)

Operating cash flows after adjustments, which are calculated by adjusting for depreciation and other items that are included in operating profit but are not accompanied by cash outflows and all inflows and outflows related to NOA that are not accompanied by cash outflows or inflows, amounted to a net cash inflow of ¥47.2 billion. The principal items influencing this result were a total of ¥7.2 billion in tangible fixed assets depreciation and impairment.

Operating free cash flows, which are calculated by deducting an increase in net working capital of ¥9.7 billion and subtracting expenditures of ¥6.9 billion for the purchase of property, plant and equipment and intangible assets from operating cash flows after adjustments, amounted to a net inflow of ¥30.6 billion. Factors accounting for the change net working capital are as shown on page 5 in the table entitled “Assets, Liabilities, and Net Assets.” Purchases of property, plant and equipment were mainly expenditures for R&D equipment and plant production machinery.

Free cash flows, which are calculated by subtracting a total of ¥22.8 billion comprising cash flows from financial asset management, income taxes paid, and dividends paid from operating free cash flows, amounted to a net cash inflow of ¥7.8 billion.

As a result, the net change in net cash, after foreign currency translation adjustments, increased ¥11.5 billion in comparison with the same period of the previous fiscal year. The net change in cash and cash equivalents, excluding changes in securities and interest-bearing debt, was a net cash inflow of ¥5.0 billion. As a result, the cash and cash equivalents balance at the end of this quarter amounted to ¥100.5 billion.

Note: Movements of free cash flows

The consolidated statement of cash flows has been prepared in accordance with the International Accounting Standard (IAS) No. 7, “Statement of Cash Flows”. On the other hand, the Company prepares operating Free Cash Flow (FCF) for use as an internal management metric. This metric provides a defined mechanism that is a cohesive and consistent basis across operating profit, operating FCF, and NOA. In addition, this metric is also aligned to the FCF disclosed by Roche. FCF represents the IFRS consolidated statement of cash flows that has been reconfigured on a different presentation basis with no eliminations such as the Core results.

For further details, please refer to the appendix section on page 9, “Movements of free cash flows”.

(3) Forecast for Consolidated Performance

The Company has not made any changes in its forecast of consolidated results for the fiscal year ending December 2013 since the announcement regarding the forecast issued on January 30, 2013.

Note: In the items (1), (2) and (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.

2. Other Information

(1) Changes in the State of Material Subsidiaries during the Period

None

(2) Changes in Accounting Principles and Changes in Accounting Estimates

None

3. Interim Condensed Consolidated Financial Statements**(1) Interim Condensed Consolidated Statement of Income and Interim Condensed Consolidated Statement of Comprehensive Income****1) Interim Condensed Consolidated Statement of Income**

	First six months of FY 2013 (Jan. 1, 2013 – June 30, 2013)	(Millions of Yen) First six months of FY 2012 (Jan. 1, 2012 – June 30, 2012)
Revenues	201,016	185,452
Sales	188,842	180,087
Royalties and other operating income	12,174	5,365
Cost of sales	(88,337)	(81,723)
Gross profit	112,679	103,728
Marketing and distribution	(34,101)	(32,154)
Research and development	(34,861)	(31,149)
General and administration	(5,598)	(4,012)
Operating profit	38,120	36,414
Financing costs	(15)	(29)
Other financial income (expense)	(1,158)	(1,230)
Profit before taxes	36,946	35,155
Income taxes	(11,685)	(13,132)
Net income	25,261	22,023
Attributable to:		
Chugai shareholders	24,748	21,630
Non-controlling interests	514	393
Earnings per share		
Basic (Yen)	45.46	39.75
Diluted (Yen)	45.41	39.73

2) Interim Condensed Consolidated Statement of Comprehensive Income

(Millions of Yen)

	First six months of FY 2013 (Jan. 1, 2013 – June 30, 2013)	First six months of FY 2012 (Jan. 1, 2012 – June 30, 2012)
Net income	25,261	22,023
Other comprehensive income		
Items that will not be reclassified to profit or loss	—	—
Total items that will not be reclassified to profit or loss	—	—
Items that may be reclassified subsequently to profit or loss		
(a) Currency translation of foreign operations	3,598	(263)
(b) The portion of gains or losses on effective cash flow hedges recognized in other comprehensive income	506	—
(c) The portion of gains or losses on effective cash flow hedges reclassified from other comprehensive income to profit or loss	(443)	—
(d) Net change in fair value of available-for-sale financial assets	2,081	912
(e) Net change in fair value of available-for-sale financial assets reclassified to profit or loss	3	108
(f) Income tax relating to items (a) to (e) that may be reclassified	(709)	(350)
Total items that may be reclassified subsequently to profit or loss	5,036	408
Other comprehensive income, net of tax	5,036	408
Total comprehensive income	30,298	22,431
Attributable to:		
Chugai shareholders	29,634	22,031
Non-controlling interests	664	400

(2) Interim Condensed Consolidated Balance Sheet

(Millions of Yen)

	June 30, 2013	December 31, 2012	January 1, 2012 (Date of transition to IFRS)
Assets			
Non-current assets:			
Property, plant and equipment	139,902	143,056	143,356
Intangible assets	7,162	6,500	6,548
Financial long-term assets	8,423	6,332	4,946
Other long-term assets	10,650	10,921	11,316
Deferred income tax assets	22,088	20,735	24,042
Post-employment benefit assets	2,567	2,680	993
Total non-current assets	190,792	190,224	191,202
Current assets:			
Inventories	114,092	108,413	102,834
Accounts receivable	119,932	128,306	119,506
Current income tax assets	69	344	27
Other current assets	6,202	6,108	4,035
Marketable securities	122,946	116,484	75,177
Cash and cash equivalents	100,461	95,445	94,474
Total current assets	463,703	455,100	396,054
Total assets	654,495	645,325	587,255

(Millions of Yen)

	June 30, 2013	December 31, 2012	January 1, 2012 (Date of transition to IFRS)
Liabilities			
Non-current liabilities:			
Long-term debt	(210)	(213)	(170)
Deferred income tax liabilities	(10,347)	(9,963)	(9,342)
Post-employment benefit liabilities	(775)	(747)	(655)
Long-term provisions	(1,818)	(1,893)	(1,907)
Other non-current liabilities	(10,919)	(8,630)	(4,531)
Total non-current liabilities	(24,069)	(21,446)	(16,606)
Current liabilities:			
Short-term debt	(44)	(44)	(22)
Current income tax liabilities	(12,602)	(11,437)	(13,731)
Short-term provisions	(237)	(5)	(273)
Accounts payable	(48,130)	(60,096)	(35,895)
Accrued and other current liabilities	(20,620)	(23,135)	(21,740)
Total current liabilities	(81,632)	(94,718)	(71,661)
Total liabilities	(105,702)	(116,164)	(88,266)
Total net assets	548,793	529,161	498,989
Equity attributable to:			
Capital and reserves attributable to Chugai shareholders	547,437	527,961	497,782
Equity attributable to non-controlling interests	1,356	1,200	1,207
Total equity	548,793	529,161	498,989

(3) Interim Condensed Consolidated Statement of Cash Flows

	(Millions of Yen)	
	First six months of FY 2013 (Jan. 1, 2013 – June 30, 2013)	First six months of FY 2012 (Jan. 1, 2012 – June 30, 2012)
Cash flows from operating activities		
Cash generated from operations	48,821	42,960
(Increase) decrease in working capital	(9,659)	20,710
Payments made for defined benefit post-employment plans	(1,354)	(1,396)
Utilization of provisions	(54)	(2)
Other operating cash flows	122	1,942
Cash flows from operating activities, before income taxes paid	37,876	64,214
Income taxes paid	(11,876)	(13,893)
Total cash flows from operating activities	26,001	50,321
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,476)	(7,084)
Purchase of intangible assets	(425)	(318)
Disposal of property, plant and equipment	(74)	4
Interest and dividends received	215	250
Purchases of marketable securities	(122,189)	(82,128)
Sales of marketable securities	117,653	73,692
Other investing cash flows	(3)	(225)
Total cash flows from investing activities	(11,298)	(15,808)
Cash flows from financing activities		
Interest paid	(6)	(4)
Dividends paid	(10,892)	(10,887)
Dividends paid—non-controlling interests	(507)	(429)
Exercise of equity compensation plan	601	0
(Increase) decrease in own equity instruments	(5)	(2)
Other financing cash flows	(63)	(67)
Total cash flows from financing activities	(10,871)	(11,389)
Net effect of currency translation on cash and cash equivalents	1,184	(93)
Increase in cash and cash equivalents	5,016	23,031
Cash and cash equivalents at January 1	95,445	94,474
Cash and cash equivalents at June 30	100,461	117,505

(4) Interim Condensed Consolidated Statement of Changes in Equity
For the second quarter ended June 30, 2013 (Jan. 1, 2013 – June 30, 2013)

(Millions of Yen)

	Attributable to Chugai shareholders					Non-controlling interests	Total equity
	Share capital	Capital surplus	Retained earnings	Reserves	Subtotal		
At January 1, 2013	72,967	64,668	397,221	(6,895)	527,961	1,200	529,161
Net income recognized in income statement	—	—	24,748	—	24,748	514	25,261
Available-for-sale financial assets	—	—	—	1,399	1,399	—	1,399
Cash flow hedges	—	—	—	39	39	—	39
Currency translation of foreign operations	—	—	—	3,449	3,449	150	3,598
Total comprehensive income	—	—	24,748	4,887	29,634	664	30,298
Dividends	—	—	(10,885)	—	(10,885)	(508)	(11,392)
Equity compensation plans, net of transaction in own equity instruments	—	29	—	—	29	—	29
Own equity instruments	—	697	—	—	697	—	697
Other movements	—	—	—	—	—	—	—
At June 30, 2013	72,967	65,394	411,084	(2,008)	547,437	1,356	548,793

For the second quarter ended June 30, 2012 (Jan. 1, 2012 – June 30, 2012)

(Millions of Yen)

	Attributable to Chugai shareholders					Non-controlling interests	Total equity
	Share capital	Capital surplus	Retained earnings	Reserves	Subtotal		
At January 1, 2012	72,967	64,385	371,560	(11,129)	497,782	1,207	498,989
Net income recognized in income statement	—	—	21,630	—	21,630	393	22,023
Available-for-sale investments	—	—	—	670	670	—	670
Cash flow hedges	—	—	—	—	—	—	—
Currency translation of foreign operations	—	—	—	(270)	(270)	7	(263)
Total comprehensive income	—	—	21,630	401	22,031	400	22,431
Dividends	—	—	(10,884)	—	(10,884)	(431)	(11,315)
Equity compensation plans, net of transaction in own equity instruments	—	83	—	—	83	—	83
Own equity instruments	—	34	—	—	34	—	34
Other movements	—	—	102	—	102	—	102
At June 30, 2012	72,967	64,502	382,408	(10,729)	509,148	1,176	510,324

(5) Notes regarding the Assumption as a Going Concern

None

(6) Notes regarding the Interim Condensed Consolidated Financial Statements

1. Significant Accounting Policies

1. Basis of preparation

These financial statements are the interim condensed consolidated financial statements (hereafter ‘the Interim Financial Statements’) of Chugai Pharmaceutical Co., Ltd. (‘Chugai’), a company incorporated in Tokyo, Japan, and its subsidiaries. The common stock of Chugai Pharmaceutical Co., Ltd. is publicly traded and is listed on the Tokyo Stock Exchange under the stock code ‘TSE: 4519.’ The Interim Financial Statements were approved by the Board of Directors at a meeting held on July 25, 2013.

Chugai is 59.89%, which is the percentage of the total number of issued shares (including treasury stock held by Chugai) owned by Roche Holding Ltd., a public company registered in Switzerland and parent company of Roche, which discloses its results with IFRS. Chugai and its subsidiaries became principal members of Roche after entering into a strategic alliance in October 2002.

The Chugai Group meets all of the requirements for the “Specified Company,” which is stipulated under Article 1-2, Paragraph 1, Item 1 of the “Regulations Concerning Terminology, Forms, and Preparation Methods of Consolidated Financial Statements” (Ministry of Finance of Japan Regulation No. 28, 1976). Hence, and in accordance with Article 93 of the “Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements” (Japanese Cabinet Ordinance No. 64, 2007), the Interim Financial Statements have been prepared in accordance with the International Accounting Standard (IAS) No. 34.

The Interim Financial Statements are denominated in Japanese yen and the amounts are rounded to the nearest ¥1 million. The measurement uses the historical cost convention, except for some items which are disclosed based on fair value, such as derivatives and available-for-sale investments.

Through the end of the fiscal year ended December 31, 2012, consolidated financial statements were prepared in conformity with accounting principles generally accepted in Japan (‘JGAAP’). The most recent consolidated financial statements prepared under JGAAP were for the fiscal year ended December 31, 2012.

The date of transition to IFRS for the Chugai Group is January 1, 2012. Included in Note 2 to these financial statements are reconciliations of Chugai’s equity under JGAAP as compared to under IFRS as at January 1, 2012, June 30, 2012, and December 31, 2012. Note 2 also includes a reconciliation of the net income and comprehensive income reported for the year ended December 31, 2012, six months ended June 30, 2012, and three months ended June 30, 2012 between JGAAP and IFRS.

The Chugai Group applies significant accounting policies to the Interim Financial Statements consistently throughout all the periods, including the consolidated balance sheet on the date of transition to IFRS, as presented in these financial statements.

2. Significant accounting policies

The significant accounting policies of the Chugai Group, which were applied along with the adoption of the IFRS, are stated in the Interim Financial Statements for the first quarter of the current fiscal year (from January 1, 2013 through March 31, 2013).

2. Transition to International Financial Reporting Standards

The Company has applied IFRS starting with the fiscal year commencing on January 1, 2012. The date of transition to IFRS is January 1, 2012. Previously, the Chugai Group prepared its financial statements in conformity with JGAAP. The year ended December 31, 2012 was the most recent period for the Chugai Group's consolidated financial statements issued under JGAAP.

Roche has issued consolidated financial statements using IFRS since 1990. Since entering into the strategic alliance, as a member of Roche, the Chugai Group has prepared financial reports in accordance with IFRS for inclusion in Roche's consolidated financial statements.

The Chugai Group voluntarily adopted IFRS Article 1, Paragraph D16, Item (a) "First-time Adoption of International Financial Reporting Standards" for their first-time IFRS adoption, and has measured their book value of assets and liabilities, based on the book value included in Roche's consolidated financial statements (excluding the impact of business combination accounting of the Chugai Group by Roche).

Reconciliation of equity

(Millions of Yen)

January 1, 2012

(Date of transition to IFRS)

	December 31, 2012	June 30, 2012	January 1, 2012 (Date of transition to IFRS)
Total net assets in previously published JGAAP financial statements	490,075	469,355	459,073
(a) Property, plant and equipment	60,784	60,055	60,420
(b) Intangible assets	4,865	4,869	4,714
(c) Pensions and other post-employment benefits	4,652	2,556	2,608
(d) Long-term prepaid expense	2,060	2,297	2,534
(e) Inventories	(481)	(646)	(2,149)
(f) Deferred income	(7,521)	(2,847)	(3,027)
(g) Accrued vacation	(2,946)	(3,033)	(2,995)
Other differences	(179)	(55)	(217)
(h) Income taxes	(22,148)	(22,226)	(21,972)
Total adjustments to total net assets	39,086	40,969	39,916
Equity in these IFRS financial statements	529,161	510,324	498,989

Reconciliation of net income

	FY 2012 (Jan. 1, 2012 - Dec. 31, 2012)	FY 2012 (Jan. 1, 2012 – June 30, 2012)	(Millions of Yen) Second quarter of FY 2012 (April 1, 2012 – June 30, 2012)
Income before minority interests in previously published JGAAP financial statements	48,992	21,282	11,738
(a) Property, plant and equipment	1,060	328	265
(b) Intangible assets	369	210	242
(c) Pensions and other post-employment benefits	208	98	49
(d) Long-term prepaid expense	(474)	(237)	(119)
(e) Inventories	1,393	1,163	422
(f) Deferred income	(4,640)	120	83
(g) Accrued vacation	49	(38)	(5)
Other differences	(610)	(848)	(1,271)
(h) Income taxes	494	(54)	(293)
Total adjustments to net income	(2,151)	741	(625)
Net income in these IFRS consolidated financial statements	46,841	22,023	11,112

Reconciliation of comprehensive income

	FY 2012 (Jan. 1, 2012 - Dec. 31, 2012)	FY 2012 (Jan. 1, 2012 – June 30, 2012)	(Millions of Yen) Second quarter of FY 2012 (April 1, 2012 – June 30, 2012)
Comprehensive income in previously published JGAAP consolidated financial statements	53,318	21,378	8,546
Total adjustments to net income (from previous table)	(2,151)	741	(625)
(c) Pensions and other post-employment benefits	1,275	—	—
Other differences	46	312	625
Total adjustments to comprehensive income	(830)	1,053	(0)
Comprehensive income in these IFRS consolidated financial statements	52,488	22,431	8,546

Notes to the reconciliations

- Under IFRS, the straight-line method is applied to depreciation of property, plant and equipment excluding lease assets, whereas the declining-balance method is used in JGAAP. The period of useful lives is different as well. Start-up and validation costs are expensed as incurred under JGAAP, whereas they are included in the acquisition cost of machinery and equipment under IFRS.
- In-licensing contract payments are recognized as intangible assets under IFRS, while they are expensed under JGAAP.
- Some of the calculations for employee benefit obligations are different, such as the allocation method and discount rate. Actuarial gain and loss are amortized by the declining-balance method over the period of average remaining service years of employees at the time of occurrence from the following year of occurrence under JGAAP. Under IFRS, actuarial gain and loss are recognized in the other comprehensive income in the consolidated comprehensive income statement.
- Start-up and validation costs at outsourced plants are expensed as incurred under JGAAP, whereas they are treated as long-term prepaid expenses under IFRS.
- The difference in the production cost is adjusted caused by the difference in depreciation, etc.
- Up-front income from an out-licensing contract is recognized as one-time income under JGAAP, whereas it is treated as deferred income under IFRS.

- (g) Unused paid annual leave is not recognized under JGAAP, but it is accrued under IFRS.
- (h) The matters described above in (a)–(g) result in deferred tax differences between the JGAAP and IFRS financial statements.
In addition, there is the difference in the tax rate used for the calculation of the tax effect to eliminate unrealized gains.

Explanation of material adjustments to the cash flow statement for the year ended December 31, 2012

There are no significant differences between the consolidated cash flow statements which are already disclosed in conformity with JGAAP and IFRS.