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 2017)

Name of Company: Chugai Pharmaceutical Co., Ltd. February 1, 2018
Stock Listing: Tokyo Stock Exchange
Security Code No.: 4519 (URL https://www.chugai-pharm.co.jp/english)
Representative: Osamu Nagayama, Representative Director, Chairman and CEO
Contact: Masahiko Uchida, General Manager of Corporate Communications Department
Phone: +81-(0)3-3273-0881
Date of Annual General Meeting of Shareholders: March 22, 2018
Date of Submission of Marketable Securities Filings: March 22, 2018
Date on which Dividend Payments to Commence: March 23, 2018
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 2017 (January 1, 2017–December 31, 2017)

(1) Consolidated operating results

	Revenues	% change	Operating profit	% change	Net income	% change
FY ended Dec. 2017	¥534,199 million	8.6	¥98,934 million	28.7	¥73,541 million	35.3
FY ended Dec. 2016	¥491,780 million	(1.4)	¥76,884 million	(11.4)	¥54,372 million	(12.8)

	Net income attributable to Chugai shareholders	% change	Total comprehensive income	% change
FY ended Dec. 2017	¥72,713 million	35.7	¥76,081 million	49.0
FY ended Dec. 2016	¥53,592 million	(12.3)	¥51,073 million	(11.1)

	Earnings per share (Basic)	Earnings per share (Diluted)
FY ended Dec. 2017	¥133.04	¥132.83
FY ended Dec. 2016	¥98.12	¥97.97

	Ratio of net income to equity attributable to Chugai shareholders	Ratio of operating profit to revenues
FY ended Dec. 2017	10.9%	18.5%
FY ended Dec. 2016	8.4%	15.6%

Note: Percentages represent 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, 2017	¥852,473 million	¥692,897 million	¥691,924 million	81.2%	¥1,265.46
As of Dec. 31, 2016	¥806,285 million	¥646,497 million	¥645,508 million	80.1%	¥1,181.67

(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. 2017	¥107,623 million	¥(36,718) million	¥(29,563) million	¥139,074 million
FY ended Dec. 2016	¥38,787 million	¥(10,107) million	¥(33,415) million	¥95,368 million

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. 2016	—	¥26.00	—	¥26.00	¥52.00
FY ended Dec. 2017	—	¥29.00	—	¥33.00	¥62.00
FY ending Dec. 2018 (Forecast)	—	¥31.00	—	¥31.00	¥62.00

	Total dividends (annual)	Dividend payout ratio (consolidated)	Ratio of dividends to equity attributable to Chugai shareholders (consolidated)
FY ended Dec. 2016	¥28,404 million	53.0%	4.5%
FY ended Dec. 2017	¥33,895 million	46.6%	5.1%
FY ending Dec. 2018 (Forecast)		—%	

3. Consolidated forecasts for FY 2018 (January 1, 2018–December 31, 2018)

	Revenues	% change	Core operating profit	% change	Core earnings per share		Core dividend payout ratio %
FY ending Dec. 2018 (Forecast)	¥541,500 million	+1.4	¥108,000 million	+4.7	¥147.00	+6.0	42.2
FY ended Dec. 2017 (Results)	¥534,199 million	+8.6	¥103,186 million	+28.1	¥138.68	+35.3	44.7

Notes: 1. Percentages shown for revenues, Core operating profit 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 Pharmaceutical Co., Ltd. ("Chugai") and used on a consistent basis. Core EPS is diluted earnings per share attributable to Chugai shareholders on a Core basis.

4. Others

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

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

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

(a) Number of shares issued at the end of the period (including treasury stock)	As of Dec. 31, 2017	559,685,889	As of Dec. 31, 2016	559,685,889
(b) Number of treasury stock at the end of the period	As of Dec. 31, 2017	12,909,947	As of Dec. 31, 2016	13,417,953
(c) Average number of shares issued during the period	FY ended Dec. 31, 2017	546,538,483	FY ended Dec. 31, 2016	546,179,634

Note: For an explanation of the number of shares used for computing earnings per share (consolidated), please refer to "Earnings per share" on page 21 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”). 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 8, “Basic profit distribution principles and dividends for the fiscal year under review and the following fiscal year” on page 9, and “Management Principles and Goals” on pages 10-12 of the attached document.
(4) Chugai is scheduled to hold a presentation of the financial statements as noted below. The materials, video, Q&A, and other related documents for the presentation for institutional investors and securities analysts will be posted on the Chugai’s website following the conclusion of the presentation.
Presentation for the media (Japanese only): February 1, 2018, Thursday (Japan time).
Presentation for institutional investors and securities analysts (Japanese only): February 2, 2018, Friday (Japan time).
The English translation of the presentation materials will be posted on the website on the next business day.

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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		
	2017	2016	% change
Core results			
Revenues	**534.2**	**491.8**	**+8.6**
Sales (excluding Tamiflu)	482.4	459.2	+5.1
Tamiflu sales	16.9	13.5	+25.2
Royalties and other operating income	34.9	19.1	+82.7
Cost of sales	(252.9)	(246.7)	+2.5
Gross profit	**281.3**	**245.0**	**+14.8**
Marketing and distribution	(72.8)	(69.8)	+4.3
Research and development	(88.9)	(82.6)	+7.6
General and administration	(16.3)	(12.1)	+34.7
Operating profit	**103.2**	**80.6**	**+28.0**
Net income	**76.7**	**56.8**	**+35.0**
IFRS results			
Revenues	534.2	491.8	+8.6
Operating profit	98.9	76.9	+28.6
Net income	73.5	54.4	+35.1

Consolidated financial highlights (IFRS results)
Revenues for the fiscal year under review were ¥534.2 billion (an increase of 8.6% year on year), operating profit for the fiscal year under review was ¥98.9 billion (an increase of 28.6% year on year), and net income for the fiscal year under review was ¥73.5 billion (an increase of 35.1% year on year). These results include non-Core items, such as amortization of intangible assets of ¥1.3 billion, impairment loss of intangible assets of ¥4.0 billion and gain on litigation of ¥1.0 billion received as compensation, etc. associated with the Oxarol lawsuit, which are excluded from the Core results that Chugai adopts to manage recurring business activities.

Consolidated financial highlights (Core results)
Revenues for the fiscal year under review were ¥534.2 billion (an increase of 8.6% year on year), due to increases in sales and royalties and other operating income.

Of revenues, sales excluding Tamiflu were ¥482.4 billion (an increase of 5.1% year on year), mainly due to the sales growth of Alecensa in Japan, and in the bone and joint diseases area, as well as increases in Alecensa and other exports to Roche, despite the effects of the previous year's NHI drug price revisions in the first quarter. Royalties and other operating income amounted to ¥34.9 billion (an increase of 82.7% year on year), due to an increase of one-time income such as milestone income.

Cost to sales ratio was 50.7%, a 1.5 percentage point improvement year on year, due to a change in the product mix, etc. As a result, gross profit amounted to ¥281.3 billion (an increase of 14.8% year on year).

Operating expenses were ¥178.1 billion (an increase of 8.3% year on year). Marketing and distribution expenses were ¥72.8 billion (an increase of 4.3% year on year) due to the increase in sales promotion activities, etc., research and development expenses amounted to ¥88.9 billion (an increase of 7.6% year on year), due primarily to the progress of projects and reclassification of some expenses due to organizational changes, etc., and general and administration expenses amounted to ¥16.3 billion (an increase of 34.7% year on year), due to an increase in various expenses including the enterprise tax (pro forma standard taxation).

As a result, Core operating profit was ¥103.2 billion (an increase of 28.0% year on year).

Other expense represents settlement for transfer pricing taxation to Roche, under which ¥1.7 billion was recorded in the fiscal year under review, including the deduction associated with the estimated amount recorded in the previous fiscal year.

As a result, Core net income was ¥76.7 billion (an increase of 35.0% year on year) and Core EPS was ¥138.68 (an increase of 35.3% year on year).

Note: Core results
Chugai discloses its results on a Core basis from 2013 in conjunction with its transition to IFRS. Core results are the results after adjusting non-recurring items recognized by Chugai to IFRS results, and are consistent with the Core concept disclosed by Roche. 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 on page 5, entitled "Reconciliation of IFRS results to Core results."

Note: Core EPS
Core EPS is diluted earnings per share attributable to shareholders of Chugai, after subtraction of non-recurring profit and loss items determined by Chugai.

Sales breakdown in billions of yen

	Year ended December 31		
	2017	2016	% change
Sales	**499.3**	**472.7**	**+5.6**
Domestic sales (excluding Tamiflu)	**388.4**	**379.7**	**+2.3**
Oncology	225.9	220.3	+2.5
Bone and joint diseases	93.3	86.1	+8.4
Renal diseases	39.3	41.1	(4.4)
Others	29.9	32.2	(7.1)
Tamiflu sales	**16.9**	**13.5**	**+25.2**
Ordinary use	11.9	12.0	(0.8)
Government stockpiles	5.0	1.5	+233.3
Overseas sales	**94.0**	**79.5**	**+18.2**

Domestic sales (excluding Tamiflu)
Domestic sales excluding Tamiflu were ¥388.4 billion (an increase of 2.3% year on year) due to steady growth of Alecensa (an ALK inhibitor, anti-cancer agent) as well as mainstay products in the bone and joint diseases area, despite the impact of the previous year's NHI drug price revisions in the first quarter.

Oncology products sales were ¥225.9 billion (an increase of 2.5% year on year). This was due to the favorable performance of Alecensa and Perjeta (an anti-HER2 humanized monoclonal antibody, anti-cancer agent), despite the limited growth of Avastin (an anti-VEGF humanized monoclonal antibody, anti-cancer agent), which became subjected to special market-expansion re-pricing in April in the previous year.

Bone and joint diseases products sales were ¥93.3 billion (an increase of 8.4% year on year). This was due to the robust sales of mainstay products such as Edirol, a top brand in the domestic market of oral therapeutic agents for osteoporosis, Actemra (a humanized anti-IL-6 receptor monoclonal antibody) and Bonviva (a bisphosphonate for osteoporosis).

Renal diseases products sales amounted to ¥39.3 billion (a decrease of 4.4% year on year) due to a decline in sales of Oxarol (an agent for secondary hyperparathyroidism) and Mircera (a long-acting erythropoiesis-stimulating agent), as a result of the NHI drug price revisions in April in the previous year.

Tamiflu sales
Sales of Tamiflu (an anti-influenza agent) for ordinary use were ¥11.9 billion (a decrease of 0.8% year on year), while sales to government stockpiles etc. were ¥5.0 billion (an increase of 233.3% year on year).

Overseas sales
Overseas sales amounted to ¥94.0 billion (an increase of 18.2% year on year) due mainly to increases in Alecensa and other exports to Roche.

Note: Domestic sales (excluding Tamiflu)
Independently disclosed sales of transplant, immunology and infectious diseases area up until FY 2016 were included and disclosed in sales of others area from the first quarter in FY 2017.

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, the Group has established research bases in Fuji Gotemba and Kamakura, which are collaborating to develop new pharmaceuticals, and its research facilities in Ukima are conducting industrialization research. Overseas, Chugai Pharma USA, Inc. (United States); Chugai Pharma Europe Ltd. (United Kingdom); Chugai Pharma Science (Beijing) Co., Ltd. (China); and Chugai Pharma Taiwan Ltd. (Taiwan) are engaged in clinical development and submission of applications in their respective countries. Chugai Pharmabody Research Pte. Ltd. (Singapore) and jointly controlled businesses C&C Research Laboratories (South Korea) are engaged in pharmaceutical research and development.

In the fiscal year under review, R&D expenses on a Core basis totaled ¥88.9 billion.

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, 2017	December 31, 2016	% change
Movements of assets and liabilities			
Net working capital	250.7	258.5	(3.0)
Long-term net operating assets	189.5	172.7	+9.7
Net operating assets (NOA)	**440.2**	**431.1**	**+2.1**
Net cash	242.8	204.9	+18.5
Other non-operating assets – net	9.9	10.5	(5.7)
Total net assets	**692.9**	**646.5**	**+7.2**
Consolidated balance sheet (IFRS basis)			
Total assets	852.5	806.3	+5.7
Total liabilities	(159.6)	(159.8)	(0.1)
Total net assets	692.9	646.5	+7.2

Net working capital at December 31, 2017 was ¥250.7 billion (a decrease of ¥7.8 billion since December 31, 2016). This was because the decrease in inventories outweighed the sum of the increase in accounts receivable-trade and the decrease in accounts payable-trade. Long-term net operating assets increased by ¥16.8 billion since the end of the previous fiscal year to ¥189.5 billion, due mainly to an increase in property, plant and equipment. As a result, net operating assets (NOA) were ¥440.2 billion, an increase of ¥9.1 billion from the end of the previous fiscal year.

As the table entitled "(3) Overview of cash flows for the fiscal year under review" on the next page indicates, net cash, including marketable securities and interest-bearing debt, increased by ¥37.9 billion since December 31, 2016 to ¥242.8 billion. Other non-operating assets - net decreased by ¥0.6 billion from the end of the previous fiscal year to ¥9.9 billion, due mainly to an increase in current income tax liabilities.

As a consequence, total net assets were ¥692.9 billion (an increase of ¥46.4 billion since December 31, 2016).

Note: Movements of assets and liabilities
The consolidated balance sheet has been prepared in accordance with International Accounting Standards (IAS) No. 1, "Presentation of Financial Statements." On the other hand, "Movements of assets and liabilities" including net operating assets (NOA) are a reconfiguration of the consolidated balance sheet as internal indicators and are identical to the indicators disclosed by Roche. Furthermore, no items from the assets and liabilities 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 "Movements of assets and liabilities."

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 and percentages 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		
	2017	2016	% change
Movements of free cash flows			
Operating profit - IFRS basis	98.9	76.9	+28.6
Operating profit, net of operating cash adjustments	121.0	98.5	+22.8
Operating free cash flows	91.0	26.0	+250.0
Free cash flows	64.7	4.3	15.0 times
Net change in net cash	37.9	(30.5)	―
Consolidated statement of cash flows (IFRS basis)			
Cash flows from operating activities	107.6	38.8	+177.3
Cash flows from investing activities	(36.7)	(10.1)	+263.4
Cash flows from financing activities	(29.6)	(33.4)	(11.4)
Net change in cash and cash equivalents	43.7	(6.3)	―
Cash and cash equivalents at December 31	139.1	95.4	+45.8

Operating profit, net of operating cash adjustments, amounted to ¥121.0 billion. This is calculated by adjusting for depreciation and other items that are included in operating profit but are not accompanied by cash inflows or outflows and all inflows and outflows related to NOA that are not accompanied by profit and loss. The principal items influencing this result were a total of ¥14.5 billion in depreciation of property, plant and equipment.

Operating free cash flows, which are calculated by adding a decrease in net working capital of ¥14.5 billion and also subtracting expenditures of ¥44.5 billion for the purchase of property, plant and equipment and intangible assets from operating profit, net of operating cash adjustments, amounted to a net inflow of ¥91.0 billion. Factors accounting for the decrease in net working capital are as shown on the previous page in the table entitled "(2) Overview of financial position for the fiscal year under review." Purchases of property, plant and equipment were mainly expenditures for purchase of buildings and equipment of the laboratories and plants.

Free cash flows were a net cash inflow of ¥64.7 billion. This is calculated by subtracting a total of ¥26.2 billion of non-operating cash outflows from financial asset management, settlement for transfer pricing taxation and income taxes paid from operating free cash flows.

As a result, the net change in net cash, after dividends paid and foreign currency translation adjustments, was an increase of ¥37.9 billion in comparison with the end of the previous fiscal year. The net change in cash and cash equivalents, excluding changes in marketable securities and interest-bearing debt, was a net cash inflow of ¥43.7 billion. The cash and cash equivalents balance at the end of this period amounted to ¥139.1 billion.

Note: Movements of 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 "Movements of free cash flows."

Cash flow related indicators

	Year ended December 31			
	2017	2016	2015	2014
Ratio of equity attributable to Chugai shareholders (%)	81.2	80.1	79.5	80.6
Ratio of equity attributable to Chugai shareholders on a market basis (%)	370.1	227.3	294.0	218.6
Interest-bearing debt to cash flows ratio (%)	0.3	1.7	1.2	0.6
Interest-coverage ratio (times)	19,772.7	4,708.4	8,582.4	6,547.7

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-bearing debt to cash flows ratio:	Interest-bearing debt / Cash flows
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-bearing debt refers to all debt posted in the consolidated balance sheet upon which interest is paid.
5. 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

In preparing Chugai performance outlook, Chugai has assumed exchange rates of ¥115/CHF, ¥133/EUR, ¥111/USD, and ¥84/SGD. The Company has also assumed that the magnitude of the flu epidemic will be about the same as the average since 2012.

Outlook for the fiscal year

Revenues

The negative impact of NHI drug price revisions will exceed the positive impact of sales growth in Alecensa and in the bone joint area driven by Actemra, Edirol and Bonviva, which will result in ¥374.8 billion (a decrease of 3.5% year on year) of Domestic sales, excluding Tamiflu.

Our outlook for sales of Tamiflu is ¥5.6 billion (a decrease of 66.9% year on year), including orders for government stockpiles of ¥0.6 billion.

Exports to Roche are expected to increase steadily and amount to ¥99.6 billion (an increase of 30.4% year on year), reflecting the continued growth in sales of Actemra overseas and the steady growth in Alecensa which has been started to be exported since 2015.

Royalties and other operating income are forecasted to rise to ¥43.0 billion (an increase of 23.2% year on year) because of increases in one-time income due to the transfer of Long-Term Listed Products, etc. and revenues from Roche for co-promotion and royalties.

Core Operating Profit / Core EPS

Gross profit is expected to rise to ¥289.5 billion (an increase of 2.9% year on year) mainly due to the increase in these revenues. Total expenses are expected to amount to ¥181.5 billion (a ¥3.4 billion increase compared to the previous year) based on the increase of research and development activities such as progress in development themes originating at Chugai and the conclusion of a comprehensive collaboration agreement for advanced research in immunology with the Osaka University Immunology Frontier Research Center (IFReC).

Core operating profit is forecasted to be ¥108.0 billion (an increase of 4.7% year on year). Core EPS will be ¥147.00 (an increase of 6.0% year on year).

(Billions of yen)

	Outlook for FY 2018	% change
Revenues	541.5	+1.4
Sales excluding Tamiflu	492.9	+2.2
Core operating profit	108.0	+4.7

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

Regarding income distribution, taking into account the strategic funding needs and earnings prospects, Chugai aims for a consolidated dividend payout ratio of 50% on average in comparison with Core EPS to 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, 2017, Chugai achieved the highest results in the past or increased by 35.3% year-on-year, which resulted in Core EPS exceeding the officially announced forecast by 11.7%.

Reflecting the favorable results and based on our principles of "aiming a consolidated dividend payout ratio of 50% on average in comparison with Core EPS", year-end regular dividends for the fiscal year ended December 31, 2017 are planned to be ¥33 per share, ¥4 higher than the forecast at the beginning of the fiscal year. As a result, total dividends for the fiscal year under review will be ¥62 per share, and the Core dividend payout ratio is 44.7% (an average of 48.4% for the past five years).

For the following fiscal year, ending December 31, 2018, Chugai expects total estimated dividends of ¥62 per share including interim dividends payment of ¥31 per share. Accordingly, the forecast for the Core dividend payout ratio is 42.2% (an average of 47.0% for the past five years) in 2018.

	Amount decided	Latest forecast for dividend (February 1, 2017)	Actual in the previous fiscal year (ended Dec. 31, 2016)
Record date	December 31, 2017	December 31, 2017	December 31, 2016
Dividends per share	¥33.00	¥29.00	¥26.00
Total dividends	¥18,044 million	—	¥14,203 million
Effective date	March 23, 2018	—	March 24, 2017
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 has established "dedicating itself to creating new values through the provision of innovative medical products and services for the benefit of the medical community and human health around the world" as its mission and "becoming a top Japanese pharmaceutical company which provides a continuous flow of innovative new medicines domestically and internationally" as its fundamental management objective.

As the Group works to achieve these goals, it will carry out its business activities in line with its core values of "the primary focus of all our activities is patients and consumers" and "committing to the highest ethical and moral standards" as befits a corporate group involved in the healthcare industry.

Under these basic management principles, the Group is making continuous efforts to pursue innovation in line with the philosophy "Innovation all for the patients." In addition, by progressively enhancing business efficiency, the Group is aiming to meet the expectations of patients, medical care professionals, shareholders, and other stakeholders and realize its objective of becoming a top pharmaceutical company.

(2) Medium-to-long-term business strategy and tasks

Amid increasing needs for pharmaceuticals due to an increase in the world population and progressive demographic graying in each country, how to realize sustainable medical care with limited resources has become a common issue in the world. While the dramatic progress of life sciences and ICT has expanded opportunities to generate innovation for solving medical issues, competition among companies to rapidly realize innovation has intensified more than ever. In addition, amid mounting pressure to curb drug costs against the backdrop of financial difficulties in each country, extremely harsh measures to suppress prices are being adopted especially in the Japanese market.

Through its previous medium-term business plan "ACCEL 15," the Group has achieved top-class growth in Japan and expansion of top share of the domestic oncology market based on numerous innovative new medicines. As for R&D activities, the Group has also achieved numerous results such as building a strong development pipeline by means of leading-edge in-house drug discovery capabilities, such as antibody engineering technologies, and a wealth of development compounds from Roche. In terms of emicizumab (expected indication: hemophilia A), which was discovered in-house, the Group filed applications in three regions, namely Japan, the United States and Europe, and has obtained approval in the United States in 2017. As for products in-licensed from Roche, there are numerous new leading medicines and drug candidates which are bringing opportunities for great progress as the growth driver, such as Tecentriq, an immune checkpoint inhibitor under development for multiple cancers, which obtained approval in Japan for the indication of non-small cell lung cancer in January 2018. On the other hand, during the next several years until the contribution of new growth driver products become full swing, sales growth is expected to slow down than before due to substantial drug price reductions for existing major products.

Amid such a mixture of opportunities and threats, the Group formulated its medium-term business plan "IBI 18," which covers the period from fiscal year 2016 through fiscal year 2018, and has been engaged in initiatives to transform into a company that continues making progress globally through demonstration of its competitive strengths by leveraging its strategic alliance with Roche. The name of the medium-term business plan "IBI 18" reflects our commitment to thoroughly pursue innovation captured in the slogan "Innovation Beyond Imagination" toward 2018, the final year of the plan.

The Group has been focusing on issues in the following fields in line with "IBI 18," based on the two priority themes of "acquisition and implementation of competitiveness at a top global level" and "selection and concentration strategy for acceleration of growth."

1) Drug discovery

The Group has moved ahead with the generation of innovative drugs in both biopharmaceuticals and small molecule drugs. Efforts in the biopharmaceutical field have been successful, leading to the world's most advanced results with respect to the establishment of antibody engineering technologies such as recycling antibody and sweeping antibody technologies. Regarding small molecule drugs also, the Group has successfully supplemented its own accumulated technologies with Roche's compound library to achieve a dramatic strengthening of its drug discovery base.

The Group's drug discovery capabilities have been highly evaluated worldwide, with three drugs generated by Chugai being designated as Breakthrough Therapy by the United States Food and Drug Administration (FDA).

Under "IBI 18," the Group has been making priority investment in the world's leading-edge antibody engineering technologies to further accelerate the generation of innovative R&D projects. In addition, the Group has selected technologies for middle molecules as the candidate for next-generation core technology following small molecule and antibody engineering, and has been striving for the establishment of technologies through concentrated investment and early generation of R&D projects. Furthermore, through cooperation with academic institutions such as the Osaka University Immunology Frontier Research Center (IFReC), with which the Group has concluded a comprehensive collaboration agreement, and collaboration with Roche in the molecular information field, the Group will work to strengthen its research foundation with emphasis on oncology and immunology.

Going forward, the Group will continue to leverage these innovative drug discovery technologies and drug discovery research systems in seeking to continuously generate first-in-class and best-in-class pharmaceutical products.

2) Development

The Group holds a development pipeline well-stocked with items generated by its own research units as well as items obtained from Roche. The Group has concentrated its own global development resources in the early development stage by utilizing the unique business model resulting from the strategic alliance with Roche, and moved ahead with efficient activities linked to global clinical development trials in domestic development, leading to achievement of a high level of R&D productivity.

Under "IBI 18," the Group will give top priority to allocating resources to development and promotion of medical plans for emicizumab and atezolizumab (trademark: Tecentriq), which are expected to play a key role in dramatic growth in the future with a view to obtaining approval early and building evidence. In addition, regarding global development projects comprising numerous products generated in-house, the Group will press ahead with early development with global top-class quality and speed under the promotion system for Translational Clinical Research (TCR) centered on three regions, namely Japan, the United States and Europe.

In order to promptly push ahead with global late-stage development of Chugai's drug discovery and development projects and market penetration in cooperation with Roche, where the Group licenses out products, or a third party, it is extremely vital to prove that Chugai's projects are attractive and show great potential both medically and economically by the completion phase of early development. To this end, the Group is also making efforts to strengthen the systems for generating and accumulating evidence through collaboration under a strategy for which the functions are integrated from the drug discovery stage.

3) Pharmaceutical Technology

The Group has advanced manufacturing technologies such as biopharmaceuticals and stably supplies highly reliable pharmaceuticals. Going forward, the promotion of global simultaneous development of multiple products and accelerated market launches of numerous Chugai creations and R&D projects and the further enhancement of cost competitiveness are critical challenges.

Under "IBI 18," the Group has been moving ahead with setting up a flexible system for facilities and staff that supplies investigational drugs in a timely manner for promptly carrying out global simultaneous development of multiple products. At the same time, the Group has been working to further strengthen manufacturing technologies for R&D projects with a high degree of difficulty in formulation such as middle molecule drugs.

In addition, in order to realize high-value-added, low-cost manufacturing, the Group will promptly set up a production system that takes an integrated approach to the processes from late-stage development to early-stage production, and enhance quality control, quality assurance and regulatory functions that accurately respond to the trends of major global markets.

4) Sales, medical affairs and safety

Amid the major challenge of providing sustainable medical care, the medical care provision environment has started to change significantly for the realization of optimal patient-centered medical care.

By effectively making the most of Avastin, Actemra, Alecensa and numerous other promising new products developed in-house or licensed-in from Roche, the Group has been building solid presences in the markets it entered for drugs in the oncology, renal disease, bone and joint disease, rheumatic diseases as well as other fields.

Going forward, it will be a critical challenge to further strengthen the system for providing solutions to meet the sophisticated and diversified needs of patients, medical care professionals, and other stakeholders while utilizing such foundation.

Under "IBI 18," the Group will move ahead with providing sophisticated information and resolving medical issues through the division and collaboration of functions centered on marketing, medical affairs and safety by conducting activities focused on growth driver products such as Actemra, Alecensa, Tecentriq and emicizumab in Japan and overseas. By doing so, the Group will aim to contribute to the realization of optimal medical care and accelerate its growth.

At the same time, the Group will work to establish a system for building and executing strategies by cross-functional teams for each area in order to push ahead with the provision of solutions according to the various characteristics of each country and region.

5) Global top-level talent

In dealing with the challenges mentioned so far, human resources that drive innovation while responding to a rapidly changing environment would be extremely important.

Under "IBI 18," the Group has been focusing on human resources as the most important theme for strengthening the foundation throughout the Company and moving ahead with selecting focus positions to be reinforced in order to accelerate innovation as well as obtaining, nurturing and assigning the right position filled by the right person.

In addition, the Group will continue to work on ensuring thorough compliance based on the highest ethical and moral standards as befits a corporate group involved in the healthcare industry and pursuing improvement of productivity.

By means of these initiatives, the Group is seeking to increase the value it provides to shareholders and all other stakeholders as it proceeds towards its objective of becoming a top pharmaceutical company.

During the period from 2015 through 2018, the final year of the medium-term business plan, the Group expects to achieve an average annual growth in its Core EPS (assuming at the average constant exchange rate of 2015) at a low single-digit rate (up to 3% range).

For further details on Core EPS, please refer to "(1) Overview of operating results for the fiscal year under review" on page 2.

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	
	2017	2016
Revenues	**534,199**	**491,780**
Sales	499,308	472,673
Royalties and other operating income	34,891	19,108
Cost of sales	(254,171)	(247,944)
Gross profit	**280,028**	**243,836**
Marketing and distribution	(72,800)	(69,770)
Research and development	(92,947)	(85,011)
General and administration	(15,347)	(12,171)
Operating profit	**98,934**	**76,884**
Financing costs	(110)	(86)
Other financial income (expense)	(87)	1,111
Other expense	(1,706)	(3,460)
Profit before taxes	**97,031**	**74,448**
Income taxes	(23,490)	(20,076)
Net income	**73,541**	**54,372**
Attributable to:		
Chugai shareholders	72,713	53,592
Non-controlling interests	827	780
Earnings per share		
Basic (yen)	133.04	98.12
Diluted (yen)	132.83	97.97

2) Consolidated statement of comprehensive income in millions of yen

	Year ended December 31	
	2017	2016
Net income recognized in income statement	**73,541**	**54,372**
Other comprehensive income		
Remeasurements of defined benefit plans	916	(3,472)
Items that will not be reclassified to the income statement	**916**	**(3,472)**
Available-for-sale investments	1,204	(1,735)
Cash flow hedges	(3,293)	5,204
Currency translation of foreign operations	3,713	(3,296)
Items that may be reclassified subsequently to the income statement	**1,624**	**173**
Other comprehensive income, net of tax	**2,540**	**(3,300)**
Total comprehensive income	**76,081**	**51,073**
Attributable to:		
Chugai shareholders	75,154	50,393
Non-controlling interests	927	680

(2) Consolidated balance sheet in millions of yen

	December 31, 2017	December 31, 2016
Assets		
Non-current assets:		
Property, plant and equipment	171,569	157,081
Intangible assets	21,078	19,299
Financial non-current assets	11,350	9,706
Deferred tax assets	34,501	27,474
Other non-current assets	14,836	13,965
Total non-current assets	**253,333**	**227,525**
Current assets:		
Inventories	169,056	185,440
Accounts receivable	174,284	167,482
Current income tax assets	717	1
Marketable securities	104,018	110,176
Cash and cash equivalents	139,074	95,368
Other current assets	11,990	20,293
Total current assets	**599,141**	**578,760**
Total assets	**852,473**	**806,285**
Liabilities		
Non-current liabilities:		
Long-term debt	(207)	(510)
Deferred tax liabilities	(9,211)	(9,146)
Defined benefit plan liabilities	(9,292)	(8,790)
Long-term provisions	(2,041)	(2,140)
Other non-current liabilities	(15,923)	(15,543)
Total non-current liabilities	**(36,674)**	**(36,128)**
Current liabilities:		
Short-term debt	(129)	(135)
Current income tax liabilities	(18,541)	(10,533)
Short-term provisions	(79)	(76)
Accounts payable	(63,518)	(72,346)
Other current liabilities	(40,635)	(40,570)
Total current liabilities	**(122,902)**	**(123,660)**
Total liabilities	**(159,576)**	**(159,788)**
Total net assets	**692,897**	**646,497**
Equity:		
Capital and reserves attributable to Chugai shareholders	691,924	645,508
Equity attributable to non-controlling interests	973	989
Total equity	**692,897**	**646,497**

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

	Year ended December 31	
	2017	2016
Cash flows from operating activities		
Cash generated from operations	124,776	102,797
(Increase) decrease in working capital	14,465	(36,159)
Payments made for defined benefit plans	(2,483)	(2,381)
Utilization of provisions	(34)	(77)
Other operating cash flows	(6,447)	(54)
Cash flows from operating activities, before income taxes paid	**130,278**	**64,127**
Income taxes paid	(22,655)	(25,339)
Total cash flows from operating activities	**107,623**	**38,787**
Cash flows from investing activities		
Purchase of property, plant and equipment	(32,881)	(30,084)
Purchase of intangible assets	(11,645)	(6,247)
Disposal of property, plant and equipment	64	(91)
Disposal of intangible assets	452	―
Interest and dividends received	271	301
Purchases of marketable securities	(208,480)	(208,686)
Sales of marketable securities	215,510	232,018
Sales of investment securities	―	2,679
Other investing cash flows	(8)	4
Total cash flows from investing activities	**(36,718)**	**(10,107)**
Cash flows from financing activities		
Interest paid	(5)	(8)
Dividends paid to Chugai shareholders	(30,054)	(31,677)
Dividends paid to non-controlling shareholders	(944)	(1,105)
Exercise of equity compensation plans	922	506
(Increase) decrease in own equity instruments	(20)	(7)
Other financing cash flows	538	(1,124)
Total cash flows from financing activities	**(29,563)**	**(33,415)**
Net effect of currency translation on cash and cash equivalents	2,363	(1,604)
Increase (decrease) in cash and cash equivalents	**43,706**	**(6,338)**
Cash and cash equivalents at January 1	95,368	101,707
Cash and cash equivalents at December 31	**139,074**	**95,368**

(4) Consolidated statement of changes in equity in millions of yen

	Attributable to Chugai shareholders						
	Share capital	Capital surplus	Retained earnings	Other reserves	Subtotal	Non-controlling interests	Total equity
Year ended December 31, 2016							
At January 1, 2016	**72,967**	**62,567**	**488,954**	**1,369**	**625,857**	**1,414**	**627,271**
Net income	—	—	53,592	—	53,592	780	54,372
Available-for-sale investments	—	—	—	(1,735)	(1,735)	—	(1,735)
Cash flow hedges	—	—	—	5,204	5,204	—	5,204
Currency translation of foreign operations	—	—	—	(3,195)	(3,195)	(101)	(3,296)
Remeasurements of defined benefit plans	—	—	(3,472)	—	(3,472)	—	(3,472)
Total comprehensive income	**—**	**—**	**50,119**	**273**	**50,393**	**680**	**51,073**
Dividends	—	—	(31,675)	—	(31,675)	(1,105)	(32,780)
Equity compensation plans	—	276	—	—	276	—	276
Own equity instruments	—	657	—	—	657	—	657
At December 31, 2016	**72,967**	**63,500**	**507,399**	**1,642**	**645,508**	**989**	**646,497**
Year ended December 31, 2017							
At January 1, 2017	**72,967**	**63,500**	**507,399**	**1,642**	**645,508**	**989**	**646,497**
Net income	—	—	72,713	—	72,713	827	73,541
Available-for-sale investments	—	—	—	1,204	1,204	—	1,204
Cash flow hedges	—	—	—	(3,293)	(3,293)	—	(3,293)
Currency translation of foreign operations	—	—	—	3,613	3,613	100	3,713
Remeasurements of defined benefit plans	—	—	916	—	916	—	916
Total comprehensive income	**—**	**—**	**73,630**	**1,524**	**75,154**	**927**	**76,081**
Dividends	—	—	(30,055)	—	(30,055)	(944)	(30,998)
Equity compensation plans	3	102	—	—	105	—	105
Own equity instruments	—	1,213	—	—	1,213	—	1,213
At December 31, 2017	**72,970**	**64,815**	**550,974**	**3,166**	**691,924**	**973**	**692,897**

(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 the Board of Directors on February 1, 2018.

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% (61.30% 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. Changes in accounting policies

The accounting policies applied by the Group for its Consolidated Financial Statements for the fiscal year under review are the same as for the previous fiscal year.
There were minor changes in some of the standards. However, they do not materially impact the Group's performance or financial status.

c. Future new and revised standards

By the date of approval of the Consolidated Financial Statements, the following new and revised standard has been issued by the International Accounting Standards Board (IASB) and has not yet been implemented by the Group.

IFRS		Mandatory adoption (from the year beginning)	Plan to be implemented by the Group	Description of new and revised standards
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	FY ending Dec. 2018	Revision of accounting relating to revenue recognition
IFRS 9	Financial Instruments	January 1, 2018	FY ending Dec. 2018	Classification, measurement, recognition of financial instruments and revision of hedge accounting
IFRS 16	Leases	January 1, 2019	FY ending Dec. 2019	Revision of accounting relating to recognition of leases

(a) Standards that will be effective from January 1, 2018

IFRS 9 Financial Instruments

IFRS 9 sets out standards regarding classification, measurement and recognition of financial instruments, and hedge accounting. The application of this standard will not have a material impact on the Group's performance or financial position.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 sets out standards on accounting for revenue recognition and, with respect to the impact on the Group's performance and financial position, its application will result in a change of accounting for upfront payment the Group receives from an out-licensing contract. With the application of this standard, upfront payment received, which was formerly recognized over time as deferred income, will be recognized as one-time income on out-licensing.

In applying this standard, the Group will adopt a method that recognizes the cumulative effect at the date of initial application, which is permitted as a transitional measure.

The main impact of applying this method on the Group's performance and financial position therefore will be that the deferred income of ¥10.6 billion, after tax effect, posted on the consolidated balance sheet for the year ended December 31, 2017 will be presented as the beginning balance of retained earnings at January 1, 2018.

The impact of the change of accounting on the consolidated income statement and consolidated statement of comprehensive income is uncertain since the total amount of upfront payment the Group will receive in 2018 cannot be reasonably estimated at the time of preparing this document.

There will be no impact on the consolidated statement of cash flows with the change of accounting relating to upfront payment received from an out-licensing contract.

(b) Standards that will be effective from January 1, 2019 and beyond

The Group is currently assessing the potential impacts of new standards and interpretations that will be effective from January 1, 2019 and beyond.

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.

Information on revenues by geographical area in millions of yen

	2017		2016	
	Sales	Royalties and other operating income	Sales	Royalties and other operating income
Japan	405,280	5,635	393,134	1,998
Overseas	94,028	29,256	79,539	17,109
of which Switzerland	76,359	28,957	62,780	15,563
Total	**499,308**	**34,891**	**472,673**	**19,108**

Information by major customer in millions of yen

	2017	2016
F. Hoffmann-La Roche Ltd.	105,262	78,321
Alfresa Corporation	104,952	103,308
Mediceo Corporation	80,390	79,275
Suzuken Co., Ltd.	52,668	50,248

3) Other expense

Chugai had filed the Advance Pricing Arrangement covering the certain transactions with F. Hoffmann-La Roche Ltd., to Japanese and Swiss tax authorities. In the first quarter of FY 2017, Chugai received a 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 fiscal year from 2016 to 2020, and if necessary, additional adjustments to the accounts shall be made in 2021.

As a result of this agreement, Chugai will transfer a part of the deducted amount of corporate tax etc., to Roche as the estimated tax payable for Roche, in accordance with the license agreement between Chugai and Roche. In addition, it has posted ¥1,706 million of adjustment from transfer pricing taxation, including the deduction associated with the estimated amount recorded in the previous fiscal year.

4) Earnings per share

Basic earnings per share

	2017	2016
Net income attributable to Chugai shareholders (millions of yen)	**72,713**	**53,592**
Weighted average number of common stock	559,685,889	559,685,889
Weighted average number of treasury stock	(13,147,406)	(13,506,255)
Weighted average number of shares in issue	**546,538,483**	**546,179,634**
Basic earnings per share (yen)	**133.04**	**98.12**

Diluted earnings per share

	2017	2016
Net income attributable to Chugai shareholders (millions of yen)	**72,713**	**53,592**
Weighted average number of shares in issue	546,538,483	546,179,634
Adjustment for assumed exercise of equity compensation plans, where dilutive	886,414	821,617
Weighted average number of shares in issue used to calculate diluted earnings per share	**547,424,897**	**547,001,251**
Diluted earnings per share (yen)	**132.83**	**97.97**

As of December 31, 2017, 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.

As of December 31, 2016, 5,538 stock options 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.

5) 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

	2017	2016
Net income	73,541	54,372
Financing costs	110	86
Other financial income (expense)	87	(1,111)
Other expense	1,706	3,460
Income taxes	23,490	20,076
Operating profit	**98,934**	**76,884**
Depreciation of property, plant and equipment	14,549	14,761
Amortization of intangible assets	1,785	1,608
Impairment of property, plant and equipment	4	61
Impairment of intangible assets	4,035	2,380
Operating expense for defined benefit plans	4,231	4,122
Operating expense for equity-settled equity compensation plans	415	433
Net (income) expense for provisions	(11)	12
Inventory write-downs	630	2,239
Other adjustments	205	298
Cash generated from operations	**124,776**	**102,797**

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

	2017	2016
Interest received	88	100
Dividends received	183	201
Total	**271**	**301**

Cash flows from financing activities

Cash flows from financing activities are primarily dividend payments to Chugai shareholders.

Significant non-cash transactions

There were no significant non-cash transactions (2016: none).

6) 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 to buy or sell Chugai's common stock.

Chugai may issue additional shares of common stock in connection with its convertible debt and equity compensation plans, and for other purposes, which affects Roche's percentage ownership interest. The Basic Alliance Agreement provides, amongst other matters, that Chugai will guarantee Roche's right to maintain its shareholding percentage in Chugai at not less than 50.1%.

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 ¥18,437 million (2016: ¥19,443 million).

b. Material transactions and balances with related parties

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

	2017	2016
Sales	76,359	62,780
Purchases of inventory and other materials	124,792	120,923

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

	December 31, 2017	December 31, 2016
Trade accounts receivable	19,593	17,314
Trade accounts payable	(24,805)	(32,965)

c. Remuneration of key management personnel

Remuneration of members of the board and audit & supervisory board members in millions of yen

	2017	2016
Board of directors		
− Regular remuneration	333	364
− Bonuses	234	191
− Tenure-based restricted stock compensation	92	−
− Performance-based restricted stock compensation	35	−
− Chugai common stock options	83	123
− Chugai stock options as stock-based compensation	34	122
Total	**811**	**801**
Audit & supervisory board members		
− Regular remuneration	85	85
Total	**85**	**85**

Starting from the fiscal year under review, Chugai has introduced a restricted stock compensation for its Directors, as replacement for the current stock option compensation for the purpose of further promoting shared value with shareholders and providing an incentive for Directors to sustainably increase Chugai's corporate value by further strengthening the linkage between Directors' remuneration and medium-to-long-term business performance.

7) Subsequent events

(Transfer of Marketing Authorizations Including Marketing and Manufacturing Rights)

With regard to the transfer of the 13 long-term listed products manufactured and marketed in Japan by Chugai, from Chugai and F. Hoffmann-La Roche Ltd. to TAIYO Pharma Co., Ltd., the transfer of assets excluding inventories has been executed upon the fulfillment of the relevant closing conditions of the asset transfer agreement on January 5, 2018.

a. Purpose of the transfer

Chugai aims to contribute to patients and the medical community through the creation of innovative medical products and services based on its business philosophy, "Innovation all for the patients." The decision to transfer these long-term listed products was taken to reinforce Chugai's focus on creating innovation, supporting the goal of ensuring sustainable growth by optimizing investment in business segments and products with potential to enhance the company's competitive advantage.

b. Name of the transferee

TAIYO Pharma Co., Ltd.

c. Details of the assets subject to transfer

Marketing authorizations, including marketing and manufacturing rights, of the following 13 products (All formulations of products under the following brand names are subject to transfer)

	Brand Name	Therapeutic Category
1	BACTRAMIN	Synthetic Antibacterial Agent / Agent for the treatment of Pneumocystis Pneumonia
2	DIGOSIN	Digitalis Glycoside
3	EUGLUCON	Oral Hypoglycemic Agent
4	FURTULON	Anti-Tumor Agent
5	GLYCEOL	Drug for the treatment of Intracranial Hypertension and Intracranial Edema / Ocular Hypotensive Agent
6	KYTRIL	5-HT_3 receptor antagonist for the treatment of Nausea and Vomiting
7	MADOPAR	Agent for the treatment of Parkinson's disease
8	PROCARBAZINE HYDROCHLORIDE	Anti-Tumor Agent
9	PYDOXAL	Active Form of Vitamin B_6
10	RESPLEN	Antitussive and Mucolytic Agent
11	RIVOTRIL	Anti-epileptic Agent
12	ROCEPHIN	Cephalosporin Antibiotic
13	TIGASON	Agent for the treatment of Hyperkeratosis

d. Transfer timetable

Date of transfer agreement: November 14, 2017

Date of execution of transfer: January 5, 2018

e. Transfer price

¥21,280 million (including the amount received by Roche) plus the value of inventories

The value of the inventories will be determined upon the transfer of the marketing authorizations, including marketing and manufacturing rights, of each product.

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