FASF MEMBERSHIP

CHUGAI PHARMACEUTICAL CO., LTD.

A member of the Roche group

CONSOLIDATED FINANCIAL STATEMENTS (IFRS) (Non-Audited)

(for the second quarter of the fiscal year 2018)

Name of Company: Chugai Pharmaceutical Co., Ltd. July 26, 2018

Stock Listing: Tokyo Stock Exchange

Security Code No.: 4519 (URL https://www.chugai-pharm.co.jp/english)

Representative: Tatsuro Kosaka, President & 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 27, 2018

Date on which Dividend Payments to Commence: August 31, 2018

Supplementary Materials Prepared for the Quarterly Financial Statements: Yes

Presentation Held to Explain the Quarterly 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 the second quarter of FY 2018 (January 1, 2018–June 30, 2018)

(1) Consolidated operating results

	Revenues	% change	Operating profit	% change	Net income	% change
First six months of FY 2018	¥285,123 million	12.8	¥66,569 million	41.3	¥49,047 million	34.2
First six months of FY 2017	¥252,774 million	2.1	¥47,101 million	8.2	¥36,535 million	14.1

	Net income attributable to Chugai shareholders	% change	Total comprehensive income	% change
First six months of FY 2018	¥48,672 million	34.8	¥46,292 million	28.1
First six months of FY 2017	¥36,100 million	14.4	¥36,130 million	79.6

	Earnings per share (Basic)	Earnings per share (Diluted)
First six months of FY 2018	¥89.00	¥88.85
First six months of FY 2017	¥66.07	¥65.97

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
As of Jun. 30, 2018	¥873,347 million	¥731,659 million	¥731,174 million	83.7%
As of Dec. 31, 2017	¥852,473 million	¥692,897 million	¥691,924 million	81.2%

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. 2017	―	¥29.00	―	¥33.00	¥62.00
FY ending Dec. 2018	―	¥31.00			
FY ending Dec. 2018 (Forecast)			―	¥31.00	¥62.00

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

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 %
First six months of FY 2018 (Results)	¥285,123 million	52.7	¥71,649 million	66.3	¥95.27	64.8	―
FY ending Dec. 2018 (Forecast)	¥541,500 million	1.4	¥108,000 million	4.7	¥147.00	6.0	42.2

Notes: 1. Percentages shown for forecasts of revenues, Core operating profit and Core EPS 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 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: Yes
- (b) Changes in accounting policies other than those in (a) above: None
- (c) Changes in accounting estimates: None

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

(a) Number of shares issued at the end of the period (including treasury stock)	As of Jun. 30, 2018	559,685,889	As of Dec. 31, 2017	559,685,889
(b) Number of treasury stock at the end of the period	As of Jun. 30, 2018	12,599,469	As of Dec. 31, 2017	12,909,947
(c) Average number of shares issued during the period (six months)	First six months of FY 2018	546,889,302	First six months of FY 2017	546,412,457

Notes:

The quarterly financial statements are not subject to quarterly reviews.

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.

(3) For the specifics of the forecasts, please refer to "Forecast for consolidated performance" on page 5 of the attached document.

(4) Chugai is scheduled to hold a presentation of the financial statements as noted below. The materials, video, the 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): July 26, 2018, Thursday (Japan time).

Presentation for institutional investors and securities analysts (Japanese only): July 27, 2018, Friday (Japan time).

The English translation of the presentation materials will be posted on the website on the next business day.

Index of the Attachment

1. Qualitative Information

(1) Consolidated operating results in billions of yen

	First six months of FY 2018.12 (Jan. 1, 2018–Jun. 30, 2018)	First six months of FY 2017.12 (Jan. 1, 2017– Jun. 30, 2017)	% change
Core results			
Revenues	**285.1**	**252.8**	**+12.8**
Sales (excluding Tamiflu)	247.2	228.7	+8.1
Tamiflu sales	8.4	8.2	+2.4
Royalties and other operating income	29.5	15.9	+85.5
Cost of sales	(128.6)	(120.8)	+6.5
Gross profit	**156.6**	**131.9**	**+18.7**
Marketing and distribution	(33.2)	(32.2)	+3.1
Research and development	(44.0)	(42.4)	+3.8
General and administration	(7.8)	(7.2)	+8.3
Operating profit	**71.6**	**50.2**	**+42.6**
Net income	**52.6**	**38.8**	**+35.6**
IFRS results			
Revenues	285.1	252.8	+12.8
Operating profit	66.6	47.1	+41.4
Net income	49.0	36.5	+34.2

Consolidated financial highlights (IFRS results)

Revenues for the six months under review were ¥285.1 billion (an increase of 12.8% year on year), operating profit for the six months was ¥66.6 billion (an increase of 41.4% year on year), and net income for the six months was ¥49.0 billion (an increase of 34.2% year on year). These results include non-Core items, such as amortization of intangible assets of ¥0.6 billion and impairment loss of intangible assets of ¥4.4 billion, which are excluded from the Core results that Chugai adopts to manage recurring business activities.

Consolidated financial highlights (Core results)

Revenues for the six months under review were ¥285.1 billion (an increase of 12.8% year on year), due to increases both in sales and royalties and other operating income.

Of revenues, sales excluding Tamiflu were ¥247.2 billion (an increase of 8.1% year on year), mainly due to the steady sales growth of mainstay products in the bone and joint diseases area and increases in exports of Actemra, Alecensa, and other exports to Roche, etc. Royalties and other operating income amounted to ¥29.5 billion (an increase of 85.5% year on year), due to one-time income and others reported in the first quarter results, primarily from the transfer of long-term listed products to Taiyo Pharma Co., Ltd.

Cost to sales ratio was 50.3%, a 0.7 percentage point improvement year on year, due to a change in the product mix, etc. As a result, gross profit amounted to ¥156.6 billion (an increase of 18.7% year on year).

Operating expenses were ¥84.9 billion (an increase of 3.8% year on year). Marketing and distribution expenses were ¥33.2 billion (an increase of 3.1% year on year), due to the increase in sales promotion activities mainly for new products and the effects of foreign exchange rates, research and development expenses amounted to ¥44.0 billion (an increase of 3.8% year on year), due primarily to the progress of projects, and general and administration expenses amounted to ¥7.8 billion (an increase of 8.3% 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 ¥71.6 billion (an increase of 42.6% year on year) and Core net income was ¥52.6 billion (an increase of 35.6% 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."

Sales breakdown in billions of yen

	First six months of FY 2018.12 (Jan. 1, 2018– Jun. 30, 2018)	First six months of FY 2017.12 (Jan. 1, 2017– Jun. 30, 2017)	% change
Sales	**255.6**	**236.8**	**+7.9**
Domestic sales (excluding Tamiflu)	**182.7**	**183.0**	**(0.2)**
Oncology	105.7	106.3	(0.6)
Bone and joint diseases	47.0	43.7	+7.6
Renal diseases	17.0	18.4	(7.6)
Others	13.0	14.6	(11.0)
Tamiflu sales	**8.4**	**8.2**	**+2.4**
Ordinary use	8.3	6.3	+31.7
Government stockpiles	0.1	1.9	(94.7)
Overseas sales	**64.5**	**45.7**	**+41.1**

Domestic sales (excluding Tamiflu)
Domestic sales excluding Tamiflu were ¥182.7 billion (a decrease of 0.2% year on year) due primarily to a decrease in sales of certain anti-cancer agents as a result of the NHI drug price revisions in April 2018, despite the steady growth of mainstay products in the bone and joint diseases area.

Oncology products sales were ¥105.7 billion (a decrease of 0.6% year on year). This decrease was due to a decrease in sales of Herceptin (an anti-HER2 humanized monoclonal antibody, anti-cancer agent) and Rituxan (an anti-CD20 monoclonal antibody, anti-cancer agent) mainly as a result of the NHI drug price revisions in April 2018, despite favorable performances of the mainstay product, Alecensa (an ALK inhibitor, anti-cancer agent), as well as Tecentriq (an anti-PD-L1 humanized monoclonal antibody, anti-cancer agent), which was launched in April 2018.

Bone and joint diseases products sales were ¥47.0 billion (an increase of 7.6% year on year). This was due to the robust sales of mainstay products such as Actemra (a humanized anti-IL-6 receptor monoclonal antibody), Edirol, (an oral therapeutic agent for osteoporosis), and Bonviva (a bisphosphonate for osteoporosis).

Renal diseases products sales amounted to ¥17.0 billion (a decrease of 7.6% year on year) due to a decline mainly in sales of Oxarol (an agent for secondary hyperparathyroidism) and Mircera (a long-acting erythropoiesis-stimulating agent).

Other products sales were ¥13.0 billion (a decrease of 11.0% year on year) due primarily to decreases in sales of Rohypnol, whose marketing authorization was transferred in the previous year, and long-term listed products transferred to Taiyo Pharma Co., Ltd.

Tamiflu sales
Sales of Tamiflu (an anti-influenza agent) for ordinary use were ¥8.3 billion (an increase of 31.7% year on year), while sales to government stockpiles etc. were ¥0.1 billion (a decrease of 94.7% year on year).

Overseas sales
Overseas sales amounted to ¥64.5 billion (an increase of 41.1% year on year) due mainly to increases in exports of Actemra, Alecensa, and Hemlibra to Roche.

(2) Consolidated financial position

Assets, liabilities, and net assets in billions of yen

	June 30, 2018	December 31, 2017	% change
Movements of assets and liabilities			
Net working capital	246.3	250.7	(1.8)
Long-term net operating assets	209.6	189.5	+10.6
Net operating assets (NOA)	**455.9**	**440.2**	**+3.6**
Net cash	274.2	242.8	+12.9
Other non-operating assets – net	1.5	9.9	(84.8)
Total net assets	**731.7**	**692.9**	**+5.6**
Consolidated balance sheet (IFRS basis)			
Total assets	873.3	852.5	+2.4
Total liabilities	(141.7)	(159.6)	(11.2)
Total net assets	731.7	692.9	+5.6

Net working capital at June 30, 2018 was ¥246.3 billion (a decrease of ¥4.4 billion since December 31, 2017). This was because the sum of the decrease in accounts receivable-trade and the increase in accounts payable-trade outweighed the sum of the decrease in accounts payable-other. Long-term net operating assets increased by ¥20.1 billion since the end of the previous fiscal year to ¥209.6 billion, due mainly to an increase in property, plant and equipment. As a result, net operating assets (NOA) were ¥455.9 billion, an increase of ¥15.7 billion from the end of the previous fiscal year.

As the table entitled "Cash flows" on the next page indicates, net cash, including marketable securities and interest-bearing debt, increased by ¥31.4 billion since December 31, 2017 to ¥274.2 billion. Other non-operating assets - net decreased by ¥8.4 billion from the end of the previous fiscal year to ¥1.5 billion, due mainly to decreases in deferred tax assets and investment securities.

With the application of IFRS 15 'Revenue from Contracts with Customers,' deferred income of ¥10.6 billion after tax effect, which was included in net working capital and long-term net operating assets at the beginning of the year, has been presented as retained earnings.

As a consequence, total net assets were ¥731.7 billion (an increase of ¥38.8 billion since December 31, 2017).

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.

Cash flows in billions of yen

	First six months of FY 2018.12 (Jan. 1, 2018–Jun. 30, 2018)	First six months of FY 2017.12 (Jan. 1, 2017– Jun. 30, 2017)	% change
Movements of free cash flows			
Operating profit - IFRS basis	66.6	47.1	+41.4
Operating profit, net of operating cash adjustments	80.4	56.9	+41.3
Operating free cash flows	65.9	43.8	+50.5
Free cash flows	50.9	28.3	+79.9
Net change in net cash	31.4	15.6	+101.3
Consolidated statement of cash flows (IFRS basis)			
Cash flows from operating activities	65.4	52.0	+25.8
Cash flows from investing activities	(30.5)	(24.0)	+27.1
Cash flows from financing activities	(17.6)	(13.5)	+30.4
Net change in cash and cash equivalents	15.5	15.3	+1.3
Cash and cash equivalents at June 30	154.6	110.7	+39.7

Operating profit, net of operating cash adjustments, amounted to ¥80.4 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 ¥7.4 billion in depreciation of property, plant and equipment.

Operating free cash flows, which are calculated by adding a decrease in net working capital of ¥2.9 billion and also subtracting expenditures of ¥17.5 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 ¥65.9 billion. Factors accounting for the decrease in net working capital are as shown on the previous page in the table entitled "Assets, liabilities, and net assets." 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 ¥50.9 billion. This is calculated by subtracting a total of ¥15.0 billion of non-operating cash outflows from financial asset management, settlement for transfer pricing taxation and income taxes paid from operating free cash flows.

The net change in net cash, after dividends paid and foreign currency translation adjustments, was an increase of ¥31.4 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 ¥15.5 billion. The cash and cash equivalents balance at the end of the second quarter amounted to ¥154.6 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."

(3) Forecast for consolidated performance
Chugai has not made any changes in its forecast of consolidated results for the fiscal year ending December 31, 2018 since the announcement regarding the forecast issued on February 1, 2018.

Note: In "1. Qualitative Information," 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. Interim Condensed Consolidated Financial Statements and Major Notes

(1) Interim condensed consolidated income statement and interim condensed consolidated statement of comprehensive income

1) Interim condensed consolidated income statement in millions of yen

	First six months ended June 30	
	2018	2017
Revenues	**285,123**	**252,774**
Sales	255,591	236,849
Royalties and other operating income	29,532	15,925
Cost of sales	(129,068)	(121,444)
Gross profit	**156,054**	**131,330**
Marketing and distribution	(33,195)	(32,199)
Research and development	(48,533)	(44,841)
General and administration	(7,757)	(7,190)
Operating profit	**66,569**	**47,101**
Financing costs	(64)	(66)
Other financial income (expense)	25	(205)
Other expense	(1,533)	(423)
Profit before taxes	**64,996**	**46,407**
Income taxes	(15,949)	(9,872)
Net income	**49,047**	**36,535**
Attributable to:		
Chugai shareholders	48,672	36,100
Non-controlling interests	375	435
Earnings per share		
Basic (yen)	89.00	66.07
Diluted (yen)	88.85	65.97

2) Interim condensed consolidated statement of comprehensive income in millions of yen

	First six months ended June 30	
	2018	2017
Net income recognized in income statement	**49,047**	**36,535**
Other comprehensive income		
Fair value changes on equity investments at fair value through OCI	119	―
Items that will never be reclassified to the income statement	**119**	**―**
Available-for-sale investments	―	311
Fair value changes on debt investments at fair value through OCI	(0)	―
Cash flow hedges	(466)	(2,415)
Currency translation of foreign operations	(2,408)	1,699
Items that are or may be reclassified to the income statement	**(2,874)**	**(405)**
Other comprehensive income, net of tax	**(2,755)**	**(405)**
Total comprehensive income	**46,292**	**36,130**
Attributable to:		
Chugai shareholders	45,978	35,644
Non-controlling interests	314	487

(2) Interim condensed consolidated balance sheet in millions of yen

	June 30, 2018	December 31, 2017
Assets		
Non-current assets:		
Property, plant and equipment	179,154	171,569
Intangible assets	18,081	21,078
Financial non-current assets	8,666	11,350
Deferred tax assets	28,673	34,501
Other non-current assets	15,848	14,836
Total non-current assets	**250,423**	**253,333**
Current assets:		
Inventories	169,999	169,056
Accounts receivable	162,813	174,284
Current income tax assets	21	717
Marketable securities	119,872	104,018
Cash and cash equivalents	154,599	139,074
Other current assets	15,620	11,990
Total current assets	**622,924**	**599,141**
Total assets	**873,347**	**852,473**
Liabilities		
Non-current liabilities:		
Long-term debt	(147)	(207)
Deferred tax liabilities	(8,313)	(9,211)
Defined benefit plan liabilities	(9,967)	(9,292)
Long-term provisions	(2,036)	(2,041)
Other non-current liabilities	(1,414)	(15,923)
Total non-current liabilities	**(21,877)**	**(36,674)**
Current liabilities:		
Short-term debt	(134)	(129)
Current income tax liabilities	(16,270)	(18,541)
Short-term provisions	(15)	(79)
Accounts payable	(70,351)	(63,518)
Other current liabilities	(33,042)	(40,635)
Total current liabilities	**(119,811)**	**(122,902)**
Total liabilities	**(141,688)**	**(159,576)**
Total net assets	**731,659**	**692,897**
Equity:		
Capital and reserves attributable to Chugai shareholders	731,174	691,924
Equity attributable to non-controlling interests	485	973
Total equity	**731,659**	**692,897**

(3) Interim condensed consolidated statement of cash flows in millions of yen

	First six months ended June 30	
	2018	2017
Cash flows from operating activities		
Cash generated from operations	82,466	59,018
(Increase) decrease in working capital	2,921	11,550
Payments made for defined benefit plans	(1,425)	(1,285)
Utilization of provisions	(13)	(24)
Other operating cash flows	(1,385)	(6,256)
Cash flows from operating activities, before income taxes paid	**82,564**	**63,003**
Income taxes paid	(17,149)	(10,962)
Total cash flows from operating activities	**65,415**	**52,041**
Cash flows from investing activities		
Purchase of property, plant and equipment	(15,118)	(17,292)
Purchase of intangible assets	(2,369)	(7,375)
Disposal of property, plant and equipment	53	(43)
Interest and dividends received	95	146
Purchases of marketable securities	(136,514)	(107,158)
Sales of marketable securities	120,458	107,713
Sales of investment securities	2,863	–
Other investing cash flows	(3)	(3)
Total cash flows from investing activities	**(30,534)**	**(24,012)**
Cash flows from financing activities		
Interest paid	(2)	(3)
Dividends paid to Chugai shareholders	(18,047)	(14,203)
Dividends paid to non-controlling shareholders	–	(360)
Exercise of equity compensation plans	557	468
(Increase) decrease in own equity instruments	(9)	(7)
Other financing cash flows	(105)	605
Total cash flows from financing activities	**(17,607)**	**(13,501)**
Net effect of currency translation on cash and cash equivalents	(1,749)	796
Increase (decrease) in cash and cash equivalents	**15,525**	**15,325**
Cash and cash equivalents at January 1	139,074	95,368
Cash and cash equivalents at June 30	**154,599**	**110,693**

(4) Interim condensed consolidated statement of changes in equity in millions of yen

For the first six months ended June 30, 2017 (Jan. 1, 2017 – Jun. 30, 2017)

	Attributable to Chugai shareholders						
	Share capital	Capital surplus	Retained earnings	Other reserves	Subtotal	Non-controlling interests	Total equity
At January 1, 2017	**72,967**	**63,500**	**507,399**	**1,642**	**645,508**	**989**	**646,497**
Net income	—	—	36,100	—	36,100	435	36,535
Available-for-sale investments	—	—	—	311	311	—	311
Cash flow hedges	—	—	—	(2,415)	(2,415)	—	(2,415)
Currency translation of foreign operations	—	—	—	1,647	1,647	52	1,699
Total comprehensive income	**—**	**—**	**36,100**	**(456)**	**35,644**	**487**	**36,130**
Dividends	—	—	(14,203)	—	(14,203)	(930)	(15,133)
Equity compensation plans	—	46	—	—	46	—	46
Own equity instruments	—	638	—	—	638	—	638
At June 30, 2017	**72,967**	**64,184**	**529,295**	**1,186**	**667,632**	**545**	**668,177**

For the first six months ended June 30, 2018 (Jan. 1, 2018 – Jun. 30, 2018)

	Attributable to Chugai shareholders						
	Share capital	Capital surplus	Retained earnings	Other reserves	Subtotal	Non-controlling interests	Total equity
At January 1, 2018	**72,970**	**64,815**	**550,974**	**3,166**	**691,924**	**973**	**692,897**
Impact of changes in accounting policies	**—**	**—**	**10,606**	**—**	**10,606**	**—**	**10,606**
At January 1, 2018 (revised)	**72,970**	**64,815**	**561,580**	**3,166**	**702,530**	**973**	**703,503**
Net income	—	—	48,672	—	48,672	375	49,047
Net change in fair value – financial assets at fair value through OCI	—	—	—	119	119	—	119
Cash flow hedges	—	—	—	(466)	(466)	—	(466)
Currency translation of foreign operations	—	—	—	(2,347)	(2,347)	(61)	(2,408)
Total comprehensive income	**—**	**—**	**48,672**	**(2,694)**	**45,978**	**314**	**46,292**
Dividends	—	—	(18,044)	—	(18,044)	(801)	(18,845)
Equity compensation plans	26	(77)	—	—	(51)	—	(51)
Own equity instruments	—	760	—	—	760	—	760
Transfer from other reserves to retained earnings	—	—	1,498	(1,498)	—	—	—
At June 30, 2018	**72,995**	**65,498**	**593,706**	**(1,025)**	**731,174**	**485**	**731,659**

(5) Notes regarding the going concern assumption

None

(6) Notes regarding the interim condensed 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 interim condensed consolidated financial statements ("Interim 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 Interim Financial Statements were approved by the Board of Directors on July 26, 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 IFRS. The shareholding percentage of Roche Holding Ltd. in Chugai is 59.89% (61.27% 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 Quarterly Consolidated Financial Statements" (Japanese Cabinet Ordinance No. 64, 2007). Hence, in accordance with Article 93 of the same Ordinance, the Interim Financial Statements have been prepared in accordance with International Accounting Standard (IAS) No. 34 "Interim Financial Reporting."

The Interim Financial Statements should be used with the consolidated financial statements for the year ended December 31, 2017 as they do not include all the information as required for the consolidated financial statements for the full fiscal year.

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

b. Key accounting judgments, estimates and assumptions

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

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

c. Significant accounting policies

The Group applies the same significant accounting policies that are used for the previous fiscal year to the Interim Financial Statements, except for those stated in d. Changes in accounting policies below.

d. Changes in accounting policies

In 2018 the Group implemented the following new standards, including any consequential amendments to other standards, with a date of initial application of January 1, 2018.

- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'

The nature and the effects of the changes most relevant to the Group's Interim Financial Statements are given below.

IFRS 9 'Financial Instruments'

Effective January 1, 2018 the Group has implemented IFRS 9 'Financial Instruments.' The new standard replaces IAS 39 'Financial Instruments: Recognition and Measurement.' The standard deals with the classification, recognition and measurement (including impairment) of financial instruments and also introduces a new hedge accounting model.

There is no material impact on the Group's performance or financial position from the application of this standard.

Classification and measurement of financial instruments.

Items such as equity securities and debt securities which were previously classified as available-for-sale under IAS 39, with the exception of time accounts over three months, are classified as financial assets at fair value through other comprehensive income (OCI), and time accounts over three months as amortized cost. Though the Group takes advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement changes, since there were no changes in the carrying amounts, no adjustments were made to retained earnings as of January 1, 2018.

Changes in the fair value of equity instruments designated as financial assets at fair value through other comprehensive income are recognized in other comprehensive income, and the cumulative amount of other comprehensive income is transferred to retained earnings when the instruments are derecognized.

Impairment of financial assets.

On January 1, 2018 the Group changed the methodology of assessing impairment of its financial assets from the incurred loss model (used in IAS 39) to the expected credit loss model (used in IFRS 9). In accordance with the transitional provisions of IFRS 9, the Group has not restated prior periods but it has reassessed the impairment allowances under the new approach as of January 1, 2018. As the impact of the transition was immaterial, the Group has recognized it as profit and loss for the fiscal year.

Hedge accounting.

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

IFRS 15 'Revenue from Contracts with Customers'

Effective January 1, 2018 the Group has implemented IFRS 15 'Revenue from contracts with customers.' The new standard replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts.' IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized, and also contains new requirements related to presentation. The core principle in that framework is that revenue should be recognized dependent on the transfer of promised goods or services to the customer for an amount that reflects the consideration which should be received in exchange for those goods or services. The objective of the standard is to provide a five-step approach to revenue recognition that includes identifying contracts with customers, identifying performance obligations, determining transaction prices, allocating transaction prices to performance obligations, and recognizing revenue when or as performance obligations are satisfied. Judgement will need to be applied, including making estimates and assumptions, for multiple-element contracts in identifying performance obligations, in constraining estimates of variable consideration and in allocating the transaction price to each performance obligation. The new standard results in an increased volume of disclosure information in the Annual Financial Statements.

Changes introduced by the standard relevant to the Group.

The new standard provides new requirements and additional guidance that are relevant to the Group, notably on the following areas:

- Revenues from licenses of intellectual property, including sales-based royalties, on constraining estimates of variable consideration such as e.g. development milestones that may be regarded as a separate performance obligation involving variable consideration. There is no material impact from these changes.
- The new standard also clarifies how to allocate sales, including the treatment of discounts, to each element in multiple-elements contracts and when to recognize sales for each of those elements. It requires the use of estimates and assumptions and some judgement to apply this guidance in practice. There is no material impact from this guidance.
- Out-licensing contracts may be entered into with no further obligation or may include commitments to research, late-stage development, regulatory approval, co-marketing or manufacturing. These may be settled by a combination of up-front payments, milestone payments, and reimbursements for services provided. Whether to consider these commitments as a single performance obligation or separate ones, or even being in scope of IFRS 15, is not straight-forward and requires some judgement. Depending on the conclusion, this may result in all revenue being calculated at inception and either being recognized at once or spread over the term of a longer performance obligation. With the application of this standard, upfront payment received, which was formerly recognized over time as deferred income, is recognized as one-time income on out-licensing.

Transition approach.

The Group recognizes the cumulative effect of applying the new standard at the date of initial application, with no restatement of the comparative periods presented. It records the cumulative effect, the amount of ¥10,606 million after tax effect, as an adjustment to the opening balance of retained earnings at the date of initial application. Except for this adjustment, there is no material impact on the Group's performance or financial position from the application of this standard.