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CHUGAI PHARMACEUTICAL CO., LTD.

A member of the Roche group

CONSOLIDATED FINANCIAL STATEMENTS (IFRS) (Non-Audited)
(for the second quarter of the fiscal year 2019)

Name of Company: Chugai Pharmaceutical Co., Ltd. July 25, 2019
 Stock Listing: Tokyo Stock Exchange
 Security Code No.: 4519 (URL <https://www.chugai-pharm.co.jp/english>)
 Representative: Tatsuhiro Kosaka, President & CEO
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Date of Submission of Quarterly Marketable Securities Filings: July 26, 2019

Date on which Dividend Payments to Commence: August 30, 2019

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 2019 (January 1, 2019–June 30, 2019)

(1) Consolidated operating results

	Revenues	% change	Operating profit	% change	Net income	% change
First six months of FY 2019	¥320,285 million	12.3	¥95,052 million	42.8	¥69,254 million	41.2
First six months of FY 2018	¥285,123 million	12.8	¥66,569 million	41.3	¥49,047 million	34.2

	Net income attributable to Chugai shareholders	% change	Total comprehensive income	% change
First six months of FY 2019	¥69,254 million	42.3	¥67,553 million	45.9
First six months of FY 2018	¥48,672 million	34.8	¥46,292 million	28.1

	Earnings per share (Basic)	Earnings per share (Diluted)
First six months of FY 2019	¥126.54	¥126.35
First six months of FY 2018	¥89.00	¥88.85

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, 2019	¥986,620 million	¥792,165 million	¥792,165 million	80.3%
As of Dec. 31, 2018	¥919,548 million	¥756,529 million	¥755,864 million	82.2%

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. 2018	—	¥31.00	—	¥55.00	¥86.00
FY ending Dec. 2019	—	¥48.00			
FY ending Dec. 2019 (Forecast)			—	¥48.00	¥96.00

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

3. Consolidated forecasts for FY 2019 (January 1, 2019–December 31, 2019)

	Revenues	% change	Core operating profit	% change	Core earnings per share		Core dividend payout ratio %
	First six months of FY 2019 (Results)	¥320,285 million	54.1	¥103,530 million	72.4	¥137.11	69.2
FY ending Dec. 2019 (Forecast)	¥592,500 million	2.2	¥143,000 million	9.7	¥198.00	12.2	48.5

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, 2019	559,685,889	As of Dec. 31, 2018	559,685,889
As of Jun. 30, 2019	12,283,953	As of Dec. 31, 2018	12,459,413
First six months of FY 2019	547,309,517	First six months of FY 2018	546,889,302

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

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

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 6 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): July 25, 2019, Thursday (Japan time).

Presentation for institutional investors and securities analysts (Japanese only): July 26, 2019, 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. Qualitative Information

(1) Consolidated operating results in billions of yen

	First six months of FY 2019.12 (Jan. 1, 2019–Jun. 30, 2019)	First six months of FY 2018.12 (Jan. 1, 2018– Jun. 30, 2018)	% change
Core results			
Revenues	320.3	285.1	+12.3
Sales	282.4	255.6	+10.5
Royalties and other operating income	37.9	29.5	+28.5
Cost of sales	(127.5)	(128.6)	(0.9)
Gross profit	192.7	156.6	+23.1
Marketing and distribution	(32.9)	(33.2)	(0.9)
Research and development	(47.9)	(44.0)	+8.9
General and administration	(8.4)	(7.8)	+7.7
Operating profit	103.5	71.6	+44.6
Net income	75.1	52.6	+42.8
IFRS results			
Revenues	320.3	285.1	+12.3
Operating profit	95.1	66.6	+42.8
Net income	69.3	49.0	+41.4

Consolidated financial highlights (IFRS results)

Revenues for the six months under review were ¥320.3 billion (an increase of 12.3% year on year), operating profit for the six months under review was ¥95.1 billion (an increase of 42.8% year on year), and net income for the six months under review was ¥69.3 billion (an increase of 41.4% year on year). These results include non-Core items, such as amortization of intangible assets of ¥0.6 billion, impairment loss of intangible assets of ¥2.5 billion, special additional allowance and other expenses related to an early retirement incentive program of ¥5.1 billion and restructuring expenses of ¥0.3 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 ¥320.3 billion (an increase of 12.3% year on year), due to a great increase in sales as well as royalties and other operating income.

Of revenues, sales were ¥282.4 billion (an increase of 10.5% year on year), due to an increase in export of Alecensa to Roche, along with the favorable sales growth of domestic sales of new products as well as mainstay products in the Oncology area and new products in other areas, etc. Royalties and other operating income amounted to ¥37.9 billion (an increase of 28.5% year on year), reflecting the increase in royalties for Hemlibra and profit-sharing income.

Cost to sales ratio was 45.1%, a 5.2 percentage point improvement year on year, due to a change in the product mix, etc. As a result, gross profit amounted to ¥192.7 billion (an increase of 23.1% year on year).

Operating expenses were ¥89.2 billion (an increase of 5.1% year on year). Marketing and distribution expenses were ¥32.9 billion (a decrease of 0.9% year on year). Research and development expenses amounted to ¥47.9 billion (an increase of 8.9% year on year) due to the progress of projects, etc. General and administration expenses amounted to ¥8.4 billion (an increase of 7.7% year on year) due to an increase in various expenses. As a result, Core operating profit was ¥103.5 billion (an increase of 44.6% year on year) and Core net income was ¥75.1 billion (an increase of 42.8% 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 1, entitled “Reconciliation of IFRS results to Core results.”

Sales breakdown in billions of yen

	First six months of FY 2019.12 (Jan. 1, 2019– Jun. 30, 2019)	First six months of FY 2018.12 (Jan. 1, 2018– Jun. 30, 2018)	% change
Sales	282.4	255.6	+10.5
Domestic sales	210.0	191.1	+9.9
Oncology	114.6	105.7	+8.4
Bone and joint diseases	52.0	47.0	+10.6
Renal diseases	17.2	17.0	+1.2
Others	26.2	21.5	+21.9
Overseas sales	72.4	64.5	+12.2

Domestic sales

Domestic sales were ¥210.0 billion (an increase of 9.9% year on year) due to the favorable growth of new products as well as mainstay products in the Oncology area and new products in the other areas, etc.

Oncology products sales were ¥114.6 billion (an increase of 8.4% year on year). This increase was due to the favorable sales of new products, Tecentriq (an anti PD-L1 humanized monoclonal antibody, anti-cancer agent), and Gazyva (a humanized anti-CD20 monoclonal antibody, anti-cancer agent) and mainstay products, Perjeta (a HER2 dimerization inhibitory humanized monoclonal antibody, anti-cancer agent) and Alecensa (an ALK inhibitor, anti-cancer agent), despite a decrease in sales of Rituxan (an anti-CD20 monoclonal antibody, anti-cancer agent), etc. as a result of the launch of generic drugs and the NHI drug price revisions in 2018.

Bone and joint diseases products sales were ¥52.0 billion (an increase of 10.6% year on year). This was due to the steady performance of mainstay products such as Actemra (a humanized anti-human IL-6 receptor monoclonal antibody) and Edirof (an oral therapeutic agent for osteoporosis).

Renal diseases products sales amounted to ¥17.2 billion (an increase of 1.2% year on year). Other products sales were ¥26.2 billion (an increase of 21.9% year on year) due to the favorable market penetration of a new product, Hemlibra (coagulation factor VIII substitute), despite the impact of the transfer of long-term listed products in the previous fiscal year. In June 2019, we launched FoundationOne CDx Cancer Genomic Profile, a next-generation sequencing based gene mutation analysis program.

Overseas sales

Overseas sales amounted to ¥72.4 billion (an increase of 12.2% year on year) mainly due to an increase in export of Alecensa to Roche.

R&D activities

R&D expenses on a Core basis for the first six months under review totaled ¥47.9 billion (an increase of 8.9% year on year), and the ratio of R&D expenses to revenue resulted in 15.0%.

Progress made in R&D activities during the period from January 1, 2019 to June 30, 2019 was as follows.

Oncology

- We obtained approval for the ROS1/TRK inhibitor RG6268 (Product name: Rozlytrek) for the indication of *NTRK* fusion-positive advanced/recurrent solid tumors in June, 2019. We filed an application for the expected indication of non-small cell lung cancer (NSCLC) in March, 2019.
- We started Phase III multinational study for the engineered anti-PD-L1 monoclonal antibody RG7446 (Product name: Tecentriq) for the expected indication of NSCLC (neoadjuvant) in May, 2019.

Autoimmune Diseases

- We decided to discontinue the development of the humanized anti-human IL-6 receptor monoclonal antibody MRA/RG1569 for systemic sclerosis considering the results of Phase III multinational study (focuSSced).

Neurology

- We started Phase III multinational study for the antisense oligonucleotide targeting *HTT* mRNA RG6042 for the expected indication of Huntington's disease in March, 2019.
- We started Phase I study for RG7906 for the expected indication of psychiatric disorders in January, 2019.
- We started Phase I study for vasopressin 1a receptor antagonist RG7314 for the expected indication of autism spectrum disorder in May, 2019.

Other diseases

- We obtained approval of the anti-FIXa/FX bispecific antibody ACE910/RG6013 (Product name: Hemlibra) for routine prophylactic treatment for adults or children with hemophilia A without inhibitors to factor VIII, administered once weekly, every two weeks, or every four weeks, as well as for additional dosing options of every two weeks or every four weeks in adults or children with hemophilia A with factor VIII inhibitors in Europe in March, 2019.
- We started Phase III multinational study for the anti-VEGF/Ang2 bispecific antibody RG7716 for the expected indication of wet age-related macular degeneration in February, 2019.

(2) Consolidated financial position**Assets, liabilities and net assets** in billions of yen

	June 30, 2019	December 31, 2018	% change
Net operating assets (NOA) and Net assets			
Net working capital	244.6	235.1	+4.0
Long-term net operating assets	305.5	270.1	+13.1
Net operating assets (NOA)	550.1	505.3	+8.9
Net cash	261.0	249.2	+4.7
Other non-operating assets – net	(18.9)	2.1	—
Total net assets	792.2	756.5	+4.7
Consolidated balance sheet (IFRS basis)			
Total assets	986.6	919.5	+7.3
Total liabilities	(194.5)	(163.0)	+19.3
Total net assets	792.2	756.5	+4.7

From the first quarter of the fiscal year ended 31 December 2019, the Group has implemented IFRS 16 ‘Leases’. As a result, leased assets, including right-of-use asset, lease receivable and so on totalling ¥ 15.2 billion and lease liabilities totalling ¥ 14.6 billion have been recorded on the balance sheet, effective 1 January 2019. Please refer to “Changes in accounting policies” on page 12.

Net operating assets (NOA) at June 30, 2019 were ¥550.1 billion, an increase of ¥44.8 billion since the end of the previous fiscal year. Of NOA, net working capital was ¥244.6 billion (an increase of ¥9.5 billion since the end of the previous fiscal year), due mainly to increases in inventories and other accounts receivable for royalties of Hemlibra as well as settlement of other accounts payable for long-term prepaid expenses for outsourcing of manufacturing, despite factors including increases in other accounts payable related to the new construction of the Chugai Life Science Park Yokohama and early retirement incentive program. Long-term net operating assets increased by ¥35.4 billion since the end of the previous fiscal year to ¥305.5 billion, due mainly to the investment in the Chugai Life Science Park Yokohama and an increase in right-of-use assets.

As indicated in “Cash flows” on the next page, net cash, including marketable securities and interest-bearing debt, increased by ¥11.8 billion since the end of the previous fiscal year to ¥261.0 billion. Other non-operating assets – net decreased by ¥21.0 billion since the end of the previous fiscal year to ¥(18.9) billion, due mainly to an increase in lease liabilities.

As a consequence, total net assets were ¥792.2 billion (an increase of ¥35.7 billion since the end of the previous fiscal year).

Note: Net operating assets (NOA) and Net assets

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

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

Note: Net operating assets (NOA)

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

Cash flows in billions of yen

	First six months of FY 2019.12 (Jan. 1, 2019–Jun. 30, 2019)	First six months of FY 2018.12 (Jan. 1, 2018– Jun. 30, 2018)	% change
Free cash flows			
Operating profit - IFRS basis	95.1	66.6	+42.8
Operating profit, net of operating cash adjustments	112.3	80.4	+39.7
Operating free cash flows	65.3	65.9	(0.9)
Free cash flows	44.7	50.9	(12.2)
Net change in net cash	11.8	31.4	(62.4)
Consolidated statement of cash flows (IFRS basis)			
Cash flows from operating activities	65.3	65.4	(0.2)
Cash flows from investing activities	(25.4)	(30.5)	(16.7)
Cash flows from financing activities	(36.5)	(17.6)	+107.4
Net change in cash and cash equivalents	2.3	15.5	(85.2)
Cash and cash equivalents at June 30	149.2	154.6	(3.5)

Operating free cash flows for the six months under review was limited to a net inflow of ¥65.3 billion (a decrease of 0.9% year on year). This was mainly due to an increase in net working capital, etc. of ¥27.1 billion and expenditures of ¥15.5 billion for the purchase of property, plant and equipment and intangible assets, despite operating profit, net of operating cash adjustments of ¥112.3 billion (an increase of 39.7% year on year), which was calculated by adjusting for depreciation and other items that are included in operating profit but are not accompanied by cash inflows or outflows and all inflows and outflows related to NOA that are not accompanied by profit and loss. Factors accounting for the increase in net working capital, etc. are as indicated in “Assets, liabilities and net assets” on the previous page. With the application of IFRS 16 “Leases,” operating free cash flows include expenditures of ¥4.5 billion for lease liabilities paid.

Free cash flows were a net cash inflow of ¥44.7 billion (a decrease of 12.2% year on year) due mainly to income taxes paid of ¥18.2 billion and settlement for transfer pricing taxation of ¥1.5 billion paid from operating free cash flows.

The net change in net cash calculated by subtracting dividends paid of ¥30.1 billion and purchase of non-controlling interests of ¥2.3 billion, etc. from free cash flows was an increase of ¥11.8 billion.

The net change in cash and cash equivalents, excluding changes in marketable securities and interest-bearing debt, was a net cash inflow of ¥2.3 billion. The cash and cash equivalents balance at the end of this period amounted to ¥149.2 billion.

Note: Free cash flows (FCF)

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

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

(3) Forecast for consolidated performance

Chugai has not made any changes in its forecast of consolidated results for the fiscal year ending December 31, 2019 since the announcement regarding the forecast issued on January 31, 2019.

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	
	2019	2018
Revenues	320,285	285,123
Sales	282,426	255,591
Royalties and other operating income	37,860	29,532
Cost of sales	(127,981)	(129,068)
Gross profit	192,305	156,054
Marketing and distribution	(35,817)	(33,195)
Research and development	(51,822)	(48,533)
General and administration	(9,614)	(7,757)
Operating profit	95,052	66,569
Financing costs	(67)	(64)
Other financial income (expense)	305	25
Other expense	(1,510)	(1,533)
Profit before taxes	93,780	64,996
Income taxes	(24,526)	(15,949)
Net income	69,254	49,047
Attributable to:		
Chugai shareholders	69,254	48,672
Non-controlling interests	—	375
Earnings per share		
Basic (yen)	126.54	89.00
Diluted (yen)	126.35	88.85

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

	First six months ended June 30	
	2019	2018
Net income recognized in income statement	69,254	49,047
Other comprehensive income		
Remeasurements of defined benefit plans	(12)	—
Financial assets measured at fair value through OCI	(142)	119
Items that will never be reclassified to the income statement	(154)	119
Financial assets measured at fair value through OCI	3	(0)
Cash flow hedges	(218)	(466)
Currency translation of foreign operations	(1,332)	(2,408)
Items that are or may be reclassified to the income statement	(1,547)	(2,874)
Other comprehensive income, net of tax	(1,701)	(2,755)
Total comprehensive income	67,553	46,292
Attributable to:		
Chugai shareholders	67,553	45,978
Non-controlling interests	—	314

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

	June 30, 2019	December 31, 2018
Assets		
Non-current assets:		
Property, plant and equipment	243,832	222,388
Right-of-use assets	11,518	—
Intangible assets	22,433	22,699
Financial non-current assets	9,116	9,723
Deferred tax assets	33,853	35,568
Other non-current assets	31,622	29,077
Total non-current assets	352,374	319,455
Current assets:		
Inventories	167,692	159,360
Accounts receivable	189,728	179,556
Current income tax assets	100	3
Marketable securities	111,860	102,533
Cash and cash equivalents	149,165	146,860
Other current assets	15,701	11,781
Total current assets	634,246	600,093
Total assets	986,620	919,548
Liabilities		
Non-current liabilities:		
Long-term debt	—	(82)
Deferred tax liabilities	(9,402)	(9,031)
Defined benefit plan liabilities	(14,433)	(14,671)
Long-term provisions	(2,138)	(2,072)
Other non-current liabilities	(8,893)	(1,946)
Total non-current liabilities	(34,866)	(27,802)
Current liabilities:		
Short-term debt	—	(133)
Current income tax liabilities	(23,712)	(19,567)
Short-term provisions	—	(1)
Accounts payable	(90,856)	(71,706)
Other current liabilities	(45,019)	(43,810)
Total current liabilities	(159,588)	(135,218)
Total liabilities	(194,454)	(163,019)
Total net assets	792,165	756,529
Equity:		
Capital and reserves attributable to Chugai shareholders	792,165	755,864
Equity attributable to non-controlling interests	—	664
Total equity	792,165	756,529

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

	First six months ended June 30	
	2019	2018
Cash flows from operating activities		
Cash generated from operations	114,436	82,466
(Increase) decrease in working capital	(27,096)	2,921
Payments made for defined benefit plans	(2,393)	(1,425)
Utilization of provisions	(1)	(13)
Other operating cash flows	(1,418)	(1,385)
Cash flows from operating activities, before income taxes paid	83,527	82,564
Income taxes paid	(18,231)	(17,149)
Total cash flows from operating activities	65,296	65,415
Cash flows from investing activities		
Purchase of property, plant and equipment	(10,111)	(15,118)
Purchase of intangible assets	(5,380)	(2,369)
Disposal of property, plant and equipment	20	53
Interest and dividends received	110	95
Purchases of marketable securities	(120,499)	(136,514)
Sales of marketable securities	111,162	120,458
Purchases of investment securities	(895)	—
Sales of investment securities	167	2,863
Other investing cash flows	0	(3)
Total cash flows from investing activities	(25,426)	(30,534)
Cash flows from financing activities		
Purchase of non-controlling interests	(2,307)	—
Interest paid	(8)	(2)
Lease liabilities paid	(4,464)	—
Dividends paid to Chugai shareholders	(30,093)	(18,047)
Exercise of equity compensation plans	369	557
(Increase) decrease in own equity instruments	(11)	(9)
Other financing cash flows	(16)	(105)
Total cash flows from financing activities	(36,530)	(17,607)
Net effect of currency translation on cash and cash equivalents	(1,034)	(1,749)
Increase (decrease) in cash and cash equivalents	2,306	15,525
Cash and cash equivalents at January 1	146,860	139,074
Cash and cash equivalents at June 30	149,165	154,599

(4) Interim condensed consolidated statement of changes in equity in millions of yen**For the first six months ended June 30, 2018 (Jan. 1, 2018 – Jun. 30, 2018)**

	Attributable to Chugai shareholders				Subtotal	Non-controlling interests	Total equity
	Share capital	Capital surplus	Retained earnings	Other reserves			
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
Financial assets measured 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

For the first six months ended June 30, 2019 (Jan. 1, 2019 – Jun. 30, 2019)

	Attributable to Chugai shareholders				Subtotal	Non-controlling interests	Total equity
	Share capital	Capital surplus	Retained earnings	Other reserves			
At January 1, 2019	73,000	66,043	618,091	(1,270)	755,864	664	756,529
Net income	—	—	69,254	—	69,254	—	69,254
Financial assets measured at fair value through OCI	—	—	—	(139)	(139)	—	(139)
Cash flow hedges	—	—	—	(218)	(218)	—	(218)
Currency translation of foreign operations	—	—	—	(1,332)	(1,332)	—	(1,332)
Remeasurements of defined benefit plans	—	—	(12)	—	(12)	—	(12)
Total comprehensive income	—	—	69,242	(1,689)	67,553	—	67,553
Dividends	—	—	(30,097)	—	(30,097)	—	(30,097)
Equity compensation plans	11	1	—	—	12	—	12
Own equity instruments	—	476	—	—	476	—	476
Changes in non-controlling interests	—	—	(1,662)	19	(1,643)	(664)	(2,307)
Transfer from other reserves to retained earnings	—	—	673	(673)	—	—	—
At June 30, 2019	73,012	66,520	656,247	(3,613)	792,165	—	792,165

(5) Notes regarding the going concern assumption

None

(6) Notes regarding the interim condensed consolidated financial statements**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 25, 2019.

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% (61.23% 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, 2018 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 2019 the Group has adopted IFRS 16 ‘Leases’, including any consequential amendments to other standards, effective 1 January 2019. The nature and the effects of the changes from implementing IFRS 16 ‘Leases’ most relevant to the Group’s Interim financial statements are given below.

IFRS16 ‘Leases’

Effective 1 January 2019 the Group has implemented IFRS 16 ‘Leases’. IFRS 16 replaces existing leases guidance, including IAS 17 ‘Leases’, and sets out the principles for recognition and measurement of leases. The new standard results in an increased volume of disclosure information in the Annual Financial Statements. The main effect on the Group is that IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. It requires a lessee to recognise assets and liabilities for its leases unless practical expedients are applied for the recognition exemption. As a result, leased assets, including right-of-use asset, lease receivable and so on totalling ¥ 15,203 million and lease liabilities totalling ¥ 14,553 million have been recorded on the balance sheet, effective 1 January 2019.

The application of the new standard results in the interest element of what have previously been reported as operating lease costs being recorded as interest expenses. Given the leases involved and the current low interest rate environment, this effect is not material to the Group.

The main impact of the new standard on the statement of cash flows is that cash flows in respect of leases previously reported as operating leases are reported as part of cash flows from financing activities except for short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability from 1 January 2019. Previously these were included within cash flows from operating activities.

Transition approach.

The Group has applied the cumulative catch-up method for the transition. Therefore the cumulative effect of adopting IFRS 16 has been recognised as an adjustment to leased assets, including right-of-use asset, lease receivable and so on totalling ¥ 15,203 million and lease liabilities totalling ¥ 14,553 million at 1 January 2019, with no restatement of comparative information. There is no impact for the opening balance of retained earnings at the date of initial application because the Group measures right-of-use asset which is an amount equal to the lease liability. However we have adjusted the lease liability by the amount of any prepaid or accrued lease payments relating to that lease recognised on the balance sheet immediately before 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.

Some practical expedients permitted by the standard are used, notably to not reassess upon transition whether an existing contract contains a lease, and the recognition exemptions for short-term leases and leases of low-value assets.

Presentational changes.

As a result of implementing IFRS 16, the Group has made a number of presentational changes in 2019, notably to present ‘Right-of-use assets’ as a separate line item in the balance sheet and to include lease liabilities in other current and non-current liabilities. A new note for ‘Leases’ will be created to include the increased volume of required disclosure information in the Annual Financial Statements.