



CHUGAI PHARMACEUTICAL CO., LTD.

Roche A member of the Roche group

CONSOLIDATED FINANCIAL STATEMENTS (IFRS) (Non-Audited)
(for the second quarter of the fiscal year 2017)

Name of Company: Chugai Pharmaceutical Co., Ltd. July 27, 2017
 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
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 Date of Submission of Quarterly Marketable Securities Filings: July 31, 2017
 Date on which Dividend Payments to Commence: September 1, 2017
 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 2017 (January 1, 2017–June 30, 2017)

(1) Consolidated operating results

	Revenues	% change	Operating profit	% change	Profit before taxes	% change
First six months of FY 2017	¥252,774 million	2.1	¥47,101 million	8.2	¥46,407 million	6.0
First six months of FY 2016	¥247,531 million	3.1	¥43,513 million	0.7	¥43,798 million	(0.1)

	Net income	% change	Net income attributable to Chugai shareholders	% change	Total comprehensive income	% change
First six months of FY 2017	¥36,535 million	14.1	¥36,100 million	14.4	¥36,130 million	79.6
First six months of FY 2016	¥32,020 million	4.0	¥31,549 million	4.7	¥20,122 million	(33.6)

	Earnings per share (Basic)	Earnings per share (Diluted)
First six months of FY 2017	¥66.07	¥65.97
First six months of FY 2016	¥57.77	¥57.68

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

2. The item "Attributable to Chugai shareholders" excludes the portion attributable to non-controlling interests.

(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, 2017	¥821,699 million	¥668,177 million	¥667,632 million	81.3%
As of Dec. 31, 2016	¥806,285 million	¥646,497 million	¥645,508 million	80.1%

Note: The item "Attributable to Chugai shareholders" excludes the portion attributable to non-controlling interests.

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 ending Dec. 2017	—	¥29.00			
FY ending Dec. 2017 (Forecast)			—	¥29.00	¥58.00

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

3. Consolidated forecasts for FY 2017 (January 1, 2017–December 31, 2017)

	Revenues	% change	Core operating profit	% change	Core earnings per share		Core dividend payout ratio %
First six months of FY 2017 (Results)	¥252,774 million	48.6	¥50,194 million	54.6	¥70.10	56.5	—
FY ending Dec. 2017 (Forecast)	¥520,500 million	5.8	¥92,000 million	14.2	¥124.11	21.1	46.7

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: 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 Jun. 30, 2017	559,685,889	As of Dec. 31, 2016	559,685,889
As of Jun. 30, 2017	13,079,441	As of Dec. 31, 2016	13,417,953
First six months of FY 2017	546,412,457	First six months of FY 2016	546,129,266

(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 5 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 27, 2017, Thursday (Japan time).

Presentation for institutional investors and securities analysts (Japanese only): July 28, 2017, 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 2017.12 (Jan. 1, 2017–Jun. 30, 2017)	First six months of FY 2016.12 (Jan. 1, 2016– Jun. 30, 2016)	% change
Core results			
Revenues	252.8	247.5	+2.1
Sales (excluding Tamiflu)	228.7	230.0	(0.6)
Tamiflu sales	8.2	7.3	+12.3
Royalties and other operating income	15.9	10.3	+54.4
Cost of sales	(120.8)	(124.4)	(2.9)
Gross profit	131.9	123.1	+7.1
Marketing and distribution	(32.2)	(33.1)	(2.7)
Research and development	(42.4)	(40.1)	+5.7
General and administration	(7.2)	(5.8)	+24.1
Operating profit	50.2	44.1	+13.8
Net income	38.8	32.4	+19.8
IFRS results			
Revenues	252.8	247.5	+2.1
Operating profit	47.1	43.5	+8.3
Net income	36.5	32.0	+14.1

Consolidated financial highlights (IFRS results)

Revenues for the six months under review were ¥252.8 billion (an increase of 2.1% year on year), operating profit for the six months under review was ¥47.1 billion (an increase of 8.3% year on year), and net income for the six months under review was ¥36.5 billion (an increase of 14.1% 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 ¥2.5 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 ¥252.8 billion (an increase of 2.1% year on year), due to an increase in royalties and other operating income.

Of revenues, sales excluding Tamiflu were ¥228.7 billion (a decrease of 0.6% year on year), due to the impact of the NHI drug price revisions and a decrease in Actemra exports to Roche, despite the sales growth in the bone and joint diseases area and an increase in Alecensa exports to Roche. Royalties and other operating income amounted to ¥15.9 billion (an increase of 54.4% year on year), due to an increase of one-time income such as milestone income.

Cost to sales ratio was 51.0%, a 1.4 percentage point improvement year on year, due to a change in the product mix etc. As a result, gross profit amounted to ¥131.9 billion (an increase of 7.1% year on year).

Expenditures were ¥81.8 billion (an increase of 3.5% year on year). Marketing and distribution expenses were ¥32.2 billion (a decrease of 2.7% year on year) due to the reclassification of some expenses due to organizational changes, etc. On the other hand, research and development expenses were ¥42.4 billion (an increase of 5.7% 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 ¥7.2 billion (an increase of 24.1% 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 ¥50.2 billion (an increase of 13.8% year on year).

Other expense represents settlement for transfer pricing taxation to Roche, under which ¥0.4 billion was recorded in the six months under review, including the deduction associated with the estimated amount recorded in the previous fiscal year.

As a result, Core net income was ¥38.8 billion (an increase of 19.8% 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 5, entitled “Reconciliation of IFRS results to Core results.”

Sales breakdown in billions of yen

	First six months of FY 2017.12 (Jan. 1, 2017– Jun. 30, 2017)	First six months of FY 2016.12 (Jan. 1, 2016– Jun. 30, 2016)	% change
Sales	236.8	237.2	(0.2)
Domestic sales (excluding Tamiflu)	183.0	184.2	(0.7)
Oncology	106.3	107.0	(0.7)
Bone and joint diseases	43.7	41.5	+5.3
Renal diseases	18.4	19.9	(7.5)
Others	14.6	15.8	(7.6)
Tamiflu sales	8.2	7.3	+12.3
Ordinary use	6.3	7.3	(13.7)
Government stockpiles	1.9	0.0	—
Overseas sales	45.7	45.8	(0.2)

Domestic sales (excluding Tamiflu)

Domestic sales excluding Tamiflu were ¥183.0 billion (a decrease of 0.7% year on year), due to the impact of the NHI drug price revisions etc. in the previous year, despite solid sales of mainstay products in the bone and joint diseases area.

Oncology products sales were ¥106.3 billion (a decrease of 0.7% year on year). This decrease was due to a decrease in sales of mainstay products such as Avastin (an anti-VEGF humanized monoclonal antibody, anti-cancer agent), which became subjected to special market-expansion re-pricing in April last year, despite the steady growth in sales of Alecensa (an ALK inhibitor, anti-cancer agent) which was launched in 2014.

Bone and joint diseases products sales were ¥43.7 billion (an increase of 5.3% year on year), due to the robust sales of mainstay products such as Edirof, 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 ¥18.4 billion (a decrease of 7.5% 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 last year.

Tamiflu sales

Sales of Tamiflu (an anti-influenza agent) for ordinary use were ¥6.3 billion (a decrease of 13.7% year on year), while sales to government stockpiles etc. were ¥1.9 billion.

Overseas sales

Overseas sales amounted to ¥45.7 billion (a decrease of 0.2% year on year), due to a decrease in exports of Actemra mainly impacted by foreign exchange rate fluctuations, despite the increases in exports to Roche of Alecensa,

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.

(2) Consolidated financial position

Assets, liabilities, and net assets in billions of yen

	June 30, 2017	December 31, 2016	% change
Movements of assets and liabilities			
Net working capital	247.0	258.5	(4.4)
Long-term net operating assets	188.1	172.7	+8.9
Net operating assets (NOA)	435.0	431.1	+0.9
Net cash	220.5	204.9	+7.6
Other non-operating assets – net	12.6	10.5	+20.0
Total net assets	668.2	646.5	+3.4
Consolidated balance sheet (IFRS basis)			
Total assets	821.7	806.3	+1.9
Total liabilities	(153.5)	(159.8)	(3.9)
Total net assets	668.2	646.5	+3.4

Net working capital at June 30, 2017 was ¥247.0 billion (a decrease of ¥11.5 billion since December 31, 2016). This was because the sum of the decrease in accounts receivable-trade and accounts receivable-other outweighed the increase in inventories. Long-term net operating assets increased by ¥15.4 billion since the end of the previous fiscal year to ¥188.1 billion, due mainly to an increase in property, plant and equipment. As a result, net operating assets (NOA) were ¥435.0 billion, an increase of ¥3.9 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 ¥15.6 billion since December 31, 2016 to ¥220.5 billion. Other non-operating assets - net increased by ¥2.1 billion from the end of the previous fiscal year to ¥12.6 billion, due mainly to a decrease in current income tax liabilities as a result of tax payment.

As a consequence, total net assets were ¥668.2 billion (an increase of ¥21.7 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.

Cash flows in billions of yen

	First six months of FY 2017.12 (Jan. 1, 2017–Jun. 30, 2017)	First six months of FY 2016.12 (Jan. 1, 2016– Jun. 30, 2016)	% change
Movements of free cash flows			
Operating profit - IFRS basis	47.1	43.5	+8.3
Operating profit, net of operating cash adjustments	56.9	53.3	+6.8
Operating free cash flows	43.8	7.0	+525.7
Free cash flows	28.3	(4.2)	—
Net change in net cash	15.6	(26.6)	—
Consolidated statement of cash flows (IFRS basis)			
Cash flows from operating activities	52.0	23.5	+121.3
Cash flows from investing activities	(24.0)	(4.5)	+433.3
Cash flows from financing activities	(13.5)	(17.7)	(23.7)
Net change in cash and cash equivalents	15.3	(1.6)	—
Cash and cash equivalents at June 30	110.7	100.1	+10.6

Operating profit, net of operating cash adjustments, amounted to ¥56.9 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 ¥7.2 billion in depreciation of property, plant and equipment.

Operating free cash flows, which are calculated by adding a decrease in net working capital of ¥11.6 billion and subtracting expenditures of ¥24.7 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 ¥43.8 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 ¥28.3 billion. This is calculated by subtracting a total of ¥15.5 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 ¥15.6 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 ¥15.3 billion. The cash and cash equivalents balance at the end of the second quarter amounted to ¥110.7 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, 2017 since the announcement regarding the forecast issued on February 1, 2017.

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	
	2017	2016
Revenues	252,774	247,531
Sales	236,849	237,242
Royalties and other operating income	15,925	10,289
Cost of sales	(121,444)	(125,029)
Gross profit	131,330	122,502
Marketing and distribution	(32,199)	(33,107)
Research and development	(44,841)	(40,124)
General and administration	(7,190)	(5,758)
Operating profit	47,101	43,513
Financing costs	(66)	(51)
Other financial income (expense)	(205)	337
Other expense	(423)	-
Profit before taxes	46,407	43,798
Income taxes	(9,872)	(11,779)
Net income	36,535	32,020
Attributable to:		
Chugai shareholders	36,100	31,549
Non-controlling interests	435	471
Earnings per share		
Basic (yen)	66.07	57.77
Diluted (yen)	65.97	57.68

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

	First six months ended June 30	
	2017	2016
Net income recognized in income statement	36,535	32,020
Other comprehensive income		
Remeasurements of defined benefit plans	-	(173)
Items that will not be reclassified to the income statement	-	(173)
Available-for-sale investments	311	(1,589)
Cash flow hedges	(2,415)	(3,942)
Currency translation of foreign operations	1,699	(6,193)
Items that may be reclassified subsequently to the income statement	(405)	(11,724)
Other comprehensive income, net of tax	(405)	(11,898)
Total comprehensive income	36,130	20,122
Attributable to:		
Chugai shareholders	35,644	19,828
Non-controlling interests	487	294

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

	June 30, 2017	December 31, 2016
Assets		
Non-current assets:		
Property, plant and equipment	171,309	157,081
Intangible assets	19,640	19,299
Financial non-current assets	10,085	9,706
Deferred tax assets	27,980	27,474
Other non-current assets	14,230	13,965
Total non-current assets	243,244	227,525
Current assets:		
Inventories	188,256	185,440
Accounts receivable	149,282	167,482
Current income tax assets	526	1
Marketable securities	110,208	110,176
Cash and cash equivalents	110,693	95,368
Other current assets	19,489	20,293
Total current assets	578,455	578,760
Total assets	821,699	806,285
Liabilities		
Non-current liabilities:		
Long-term debt	(271)	(510)
Deferred tax liabilities	(9,132)	(9,146)
Defined benefit plan liabilities	(9,584)	(8,790)
Long-term provisions	(2,080)	(2,140)
Other non-current liabilities	(15,017)	(15,543)
Total non-current liabilities	(36,085)	(36,128)
Current liabilities:		
Short-term debt	(132)	(135)
Current income tax liabilities	(9,560)	(10,533)
Short-term provisions	(47)	(76)
Accounts payable	(74,543)	(72,346)
Other current liabilities	(33,156)	(40,570)
Total current liabilities	(117,437)	(123,660)
Total liabilities	(153,522)	(159,788)
Total net assets	668,177	646,497
Equity:		
Capital and reserves attributable to Chugai shareholders	667,632	645,508
Equity attributable to non-controlling interests	545	989
Total equity	668,177	646,497

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

	First six months ended June 30	
	2017	2016
Cash flows from operating activities		
Cash generated from operations	59,018	55,353
(Increase) decrease in working capital	11,550	(18,550)
Payments made for defined benefit plans	(1,285)	(1,290)
Utilization of provisions	(24)	(46)
Other operating cash flows	(6,256)	852
Cash flows from operating activities, before income taxes paid	63,003	36,319
Income taxes paid	(10,962)	(12,847)
Total cash flows from operating activities	52,041	23,473
Cash flows from investing activities		
Purchase of property, plant and equipment	(17,292)	(24,208)
Purchase of intangible assets	(7,375)	(3,543)
Disposal of property, plant and equipment	(43)	0
Interest and dividends received	146	172
Purchases of marketable securities	(107,158)	(107,887)
Sales of marketable securities	107,713	131,009
Other investing cash flows	(3)	(3)
Total cash flows from investing activities	(24,012)	(4,459)
Cash flows from financing activities		
Interest paid	(3)	(4)
Dividends paid to Chugai shareholders	(14,203)	(17,470)
Dividends paid to non-controlling shareholders	(360)	(475)
Exercise of equity compensation plans	468	373
(Increase) decrease in own equity instruments	(7)	(4)
Other financing cash flows	605	(111)
Total cash flows from financing activities	(13,501)	(17,692)
Net effect of currency translation on cash and cash equivalents	796	(2,926)
Increase (decrease) in cash and cash equivalents	15,325	(1,605)
Cash and cash equivalents at January 1	95,368	101,707
Cash and cash equivalents at June 30	110,693	100,102

(4) Interim condensed consolidated statement of changes in equity in millions of yen**For the first six months ended June 30, 2016 (Jan. 1, 2016 – Jun. 30, 2016)**

	Attributable to Chugai shareholders					Non-controlling interests	Total equity
	Share capital	Capital surplus	Retained earnings	Other reserves	Subtotal		
At January 1, 2016	72,967	62,567	488,954	1,369	625,857	1,414	627,271
Net income	-	-	31,549	-	31,549	471	32,020
Available-for-sale investments	-	-	-	(1,589)	(1,589)	-	(1,589)
Cash flow hedges	-	-	-	(3,942)	(3,942)	-	(3,942)
Currency translation of foreign operations	-	-	-	(6,016)	(6,016)	(177)	(6,193)
Remeasurements of defined benefit plans	-	-	(173)	-	(173)	-	(173)
Total comprehensive income	-	-	31,376	(11,548)	19,828	294	20,122
Dividends	-	-	(17,473)	-	(17,473)	(1,093)	(18,566)
Equity compensation plans	-	88	-	-	88	-	88
Own equity instruments	-	485	-	-	485	-	485
At June 30, 2016	72,967	63,140	502,857	(10,178)	628,785	615	629,400

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

	Attributable to Chugai shareholders					Non-controlling interests	Total equity
	Share capital	Capital surplus	Retained earnings	Other reserves	Subtotal		
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
Remeasurements of defined benefit plans	-	-	-	-	-	-	-
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

(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 27, 2017.

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% (61.32% 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 “Regulations Concerning Terminology, Forms, and Preparation Methods of Consolidated Financial Statements” (Ministry of Finance of Japan Regulation No. 28, 1976). Hence, in accordance with Article 93 of the “Ordinance on Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements” (Japanese Cabinet Ordinance No. 64, 2007), the Interim Financial Statements have been prepared in accordance with 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, 2016 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 prior fiscal year’s consolidated financial statements to the Interim Financial Statements.