NOTICE: For the convenience of capital market participants, Chugai makes efforts to provide English translations of the information disclosed in Japanese, provided that the Japanese original prevails over its English translation in the case of any discrepancy found between documentation.

CHUGAI PHARMACEUTICAL CO., LTD.

A member of the Roche group

CONSOLIDATED FINANCIAL STATEMENTS (IFRS) (Non-Audited)

(for the fiscal year 2013)

Name of Company: Chugai Pharmaceutical Co., Ltd. January 30, 2014
Stock Listing: Tokyo Stock Exchange
Security Code No.: 4519 (URL http://www.chugai-pharm.co.jp/english)
Representative: Osamu Nagayama, Representative Director, Chairman and CEO
Contact: Masahiko Uchida, General Manager of Corporate Communications Department
Phone: +81-(0)3-3273-0881
Date of General Meeting of Shareholders: March 27, 2014
Date of Submission of Marketable Securities Filings: March 27, 2014
Date on which Dividend Payments to Commence: March 28, 2014
Supplementary Materials Prepared for the Financial Statements: Yes
Presentation Held to Explain the Financial Statements: Yes (for institutional investors, securities analysts and the media)

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

1. Consolidated results for the FY 2013 (January 1, 2013–December 31, 2013)

(1) Consolidated results (income statement)

	Revenues	% change	Operating profit	% change	Profit before taxes	% change
FY ended Dec. 2013	¥423,652 million	9.6	¥78,738 million	5.5	¥76,944 million	5.9
FY ended Dec. 2012	¥386,552 million	—	¥74,663 million	—	¥72,678 million	—

	Net income	% change	Net income attributable to Chugai shareholders	% change	Total comprehensive income	% change
FY ended Dec. 2013	¥51,886 million	10.8	¥50,895 million	10.5	¥66,793 million	27.3
FY ended Dec. 2012	¥46,841 million	—	¥46,052 million	—	¥52,488 million	—

	Net income per share (Basic)	Net income per share (Diluted)
FY ended Dec. 2013	¥93.47	¥93.35
FY ended Dec. 2012	¥84.62	¥84.58

	Ratio of net income to equity attributable to Chugai shareholders	Ratio of profit before taxes to total assets	Ratio of operating profit to revenues
FY ended Dec. 2013	9.3%	11.5%	18.6%
FY ended Dec. 2012	9.0%	11.8%	19.3%

Notes: 1. Equity-method earnings for the year ended December 31, 2013: ¥— million, December 31, 2012: ¥— million
2. Percentages represent changes compared with the same period of the previous fiscal year.
3. 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	Equity per share attributable to Chugai shareholders
As of Dec. 31, 2013	¥697,212 million	¥573,204 million	¥571,692 million	82.0%	¥1,049.47
As of Dec. 31, 2012	¥645,325 million	¥529,161 million	¥527,961 million	81.8%	¥970.08

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

(3) Consolidated results (cash flow)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Balance of cash and cash equivalents
FY ended Dec. 2013	¥53,521 million	¥(13,213) million	¥(23,169) million	¥115,070 million
FY ended Dec. 2012	¥77,542 million	¥(54,901) million	¥(22,792) million	¥95,445 million

2. Dividends

	Annual dividends per share				
	End of first quarter	End of second quarter	End of third quarter	End of fiscal year	Total
FY ended Dec. 2012	—	¥20.00	—	¥20.00	¥40.00
FY ended Dec. 2013	—	¥22.00	—	¥23.00	¥45.00
FY ending Dec. 2014 (Forecast)	—	¥22.00	—	¥23.00	¥45.00

	Total dividends (annual)	Dividend payout ratio (consolidated)	Ratio of dividends to equity attributable to Chugai shareholders (consolidated)
FY ended Dec. 2012	¥21,769 million	47.3%	4.2%
FY ended Dec. 2013	¥24,510 million	48.1%	4.5%
FY ending Dec. 2014 (Forecast)		—	

3. Consolidated Forecasts for the FY 2014 (January 1, 2014–December 31, 2014)

	Revenues	% change	Core operating profit	% change	Core earnings per share		Core dividend payout ratio %
FY ending Dec. 2014 (Forecast)	¥451,000 million	6.5	¥71,000 million	(11.2)	¥82.62	(12.7)	54.5
FY ended Dec. 2013 (Actual)	¥423,652 million	9.6	¥79,913 million	5.8	¥94.69	10.6	47.5

Notes: 1. Percentages shown for revenues, core operating profit and core EPS represent changes from the same period of the previous fiscal year.

2. The figures for the consolidated forecasts and actuals are calculated based on core basis indicators established by Chugai and used on a consistent basis.

4. Others

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

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

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

(a) Number of shares at the end of the period (including treasury stock)	As of Dec. 31, 2013	559,685,889	As of Dec. 31, 2012	559,685,889
(b) Number of treasury stock at the end of the period	As of Dec. 31, 2013	14,944,320	As of Dec. 31, 2012	15,440,438
(c) Average number of shares issued during the period (twelve months)	FY ended Dec. 31, 2013	544,524,293	FY ended Dec. 31, 2012	544,213,366

Note: For an explanation of the number of shares used for computing net income per share (consolidated), please refer to "Earnings per share" on page 28 of the attached document.

Notes:

Items related to the status of the implementation of auditing procedures

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

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

(1) Chugai has applied International Financial Reporting Standards ("IFRS") from the first quarter of the fiscal year ended December 31, 2013. In addition, the consolidated financial statements for the same quarters of the previous year and for the previous fiscal year have been prepared in accordance with IFRS.

(2) Portions of this report that refer to performance forecasts or any other future events are believed to be reasonable under information available at the time of the forecasts. Actual results may materially differ from these forecasts due to potential risks and uncertainties.

(3) The forecast which is published for shareholders and investors is based on the internal management indicator Core basis. The difference between IFRS results and Core results will be explained at each event and presentation.

(4) For the specifics of the forecasts, please refer to "Analysis concerning business performance" on pages 2-5, "Basic profit distribution principles and dividends for the fiscal year under review and the following fiscal year" on page 7, and "Management Principles and Goals" on pages 10-11 of the attached document.

(5) Please refer to Supplemental Information of "Notice concerning adoption of International Financial Reporting Standards (IFRS)" http://www.chugai-pharm.co.jp/html/press/pdf/2012/121214eSupplementaryMaterials.pdf on pages 11-13 for details of Core basis.

(6) Chugai is scheduled to hold a presentation of the financial statements as noted below. The materials, video, and other related documents for the presentation for institutional investors and securities analysts will be posted on the Company's website immediately following the conclusion of the presentation.

Presentation for the media (Japanese only): January 30, 2014, Thursday (Japan time).

Presentation for institutional investors and securities analysts (Japanese only): January 31, 2014, Friday (Japan time).

Index of the Attachment

1. Business Performance

(1) Analysis concerning business performance

1) Summary of business activities in billions of yen

	Year ended December 31		
	2013	2012	% change
Core results			
Revenues	**423.7**	**386.6**	**+9.6**
Sales (excluding Tamiflu)	390.2	363.2	+7.4
Tamiflu sales	11.0	12.0	(8.3)
Royalties and other operating income	22.4	11.3	+98.2
Cost of sales	(186.1)	(167.3)	+11.2
Gross profit	**237.6**	**219.3**	**+8.3**
Marketing and distribution	(71.5)	(67.9)	+5.3
Research and development	(74.1)	(66.6)	+11.3
General and administration	(12.1)	(9.2)	+31.5
Operating profit	**79.9**	**75.6**	**+5.7**
Net income	**52.6**	**47.4**	**+11.0**
IFRS results			
Revenues	423.7	386.6	+9.6
Operating profit	78.7	74.7	+5.4
Net income	51.9	46.8	+10.9

Consolidated financial highlights (IFRS results)
Operating profit for the fiscal year under review was ¥78.7 billion (an increase of 5.4% year on year), and net income for the fiscal year under review was ¥51.9 billion (an increase of 10.9% year on year). These results include non-Core items, such as amortization of intangible assets of ¥1.0 billion, restructuring costs of ¥0.2 billion, and other items, which are excluded from the Core results managed by Chugai Pharmaceutical Co., Ltd., the company submitting the consolidated financial statements ("Chugai").

Consolidated financial highlights (Core results)
Revenues for the fiscal year under review were ¥423.7 billion (an increase of 9.6% year on year) due to the growth in sales and royalties and other operating income. Sales excluding Tamiflu were ¥390.2 billion (an increase of 7.4% year on year).

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

Cost of sales totaled ¥186.1 billion (an increase of 11.2% year on year). Although depreciation of the yen increased the cost of sales ratio, the effect was limited due to the refinement of allocation method of cost variance made in the third quarter to more properly reflect the impact of significant depreciation of the yen. Gross profit amounted to ¥237.6 billion (an increase of 8.3 % year on year) as a result of the substantial increase in royalties and other operating income.

Marketing and distribution expenses were ¥71.5 billion (an increase of 5.3% year on year), mainly due to the rise in expenses of overseas sales companies owing to the depreciation of the yen and an increase in the sales promotion activities associated with the launch of new products. Research and development expenditures were ¥74.1 billion (an increase of 11.3% year on year) as a result of the depreciation of the yen, the full operation of Chugai Pharmabody Research Pte. Ltd. and expenditures associated with the renewal of buildings and equipment. General and administration expenses were ¥12.1 billion (an increase of 31.5% year on year) due to the rise in various expenses.

As a consequence, operating profit was ¥79.9 billion (an increase of 5.7% year on year), and net income for the fiscal year under review was ¥52.6 billion (an increase of 11.0% year on year). As a result of the changes in the taxation system (resulting in the incurrence of one-time expenses in the previous fiscal year and a reduction in the tax rate that became effective in the fiscal year under review), there is a significant difference in year on year changes of net income compared to that of the operating profit.

Note: Core results
Chugai discloses its results on a Core basis from 2013 in conjunction with its decision to apply IFRS. Core results are the results after adjusting non-Core items 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 underlying business performance both internally and externally, and as the basis for payment-by-results such as a return to shareholders.

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 by product domain in billions of yen

	Year ended December 31		
	2013	2012	% change
Sales	**401.3**	**375.2**	**+7.0**
Domestic sales (excluding Tamiflu)	**329.2**	**320.9**	**+2.6**
Oncology	172.4	156.1	+10.4
Bone and joint diseases	60.6	66.3	(8.6)
Renal diseases	48.9	48.1	+1.7
Transplant, immunology, and infectious diseases	18.8	20.3	(7.4)
Others	28.6	30.1	(5.0)
Tamiflu sales	**11.0**	**12.0**	**(8.3)**
Ordinary use	10.1	10.2	(1.0)
Government stockpiles etc.	0.9	1.9	(52.6)
Overseas sales	**61.1**	**42.3**	**+44.4**

Domestic sales (excluding Tamiflu)
Domestic sales excluding Tamiflu were ¥329.2 billion (an increase of 2.6% year on year). Sales of new products and new formulations, and the steady growth of major products made up for the decrease in revenues resulting from the completion of the sales agreement for Evista (an agent for the treatment of osteoporosis) and the effects of the National Health Insurance ("NHI") drug price revisions. Excluding the impact of the completion of the sales agreement for Evista, the pace of growth in the remaining products was an 8.0% year on year increase.

Oncology product sales increased substantially to ¥172.4 billion (an increase of 10.4% year on year). This increase was due to the steady expansion in sales of major oncology drugs such as Avastin (an anti-VEGF humanized monoclonal antibody, anti-cancer agent) and Tarceva (an epidermal growth factor receptor (EGFR) tyrosine kinase inhibitor, anti-cancer agent), in addition to the contribution by Perjeta (an anti-HER2 humanized monoclonal antibody, anti-cancer agent) launched in September 2013 for the indication of HER2-positive breast cancer. Initial-year sales of Perjeta were ¥2.4 billion.

Bone and joint diseases product sales were ¥60.6 billion (a decrease of 8.6% year on year). This decrease was due to the completion of the sales agreement for Evista, which reported sales of ¥16.1 billion in the previous fiscal year. Excluding the impact of Evista, the pace of growth in the remaining products was over 20% year on year, led by strong sales of Edirol (an active vitamin D_3 derivative), a top brand in the domestic market of oral therapeutic agents for osteoporosis, Actemra, whose subcutaneous injection formulation was launched in May 2013, and Bonviva (ibandronate sodium hydrate) launched in August 2013 also for the indication of osteoporosis. Initial-year sales of Bonviva were ¥0.5 billion.

Renal diseases product sales totaled ¥48.9 billion (an increase of 1.7% year on year). Although income had been declining due to the decrease in sales of Epogin (a recombinant human erythropoietin), the growth in the sales of Mircera (a long-lasting erythropoiesis-stimulating agent) primarily in the pre-dialysis market made up for this shortfall, and increases in sales have been reported from the second half of the fiscal year under review.

In the area of transplant, immunology, and infectious diseases products (excluding Tamiflu), sales were ¥18.8 billion (a decrease of 7.4% year on year). This decline was due to decreased sales of Pegasys (a peginterferon-α-2a) and Copegus (an anti-viral agent), owing to the shrinkage in the market for interferon agents.

Tamiflu (an anti-influenza agent)
Sales of Tamiflu for ordinary use amounted to ¥10.1 billion (a decrease of 1.0% year on year). Sales to government stockpiles etc. amounted to ¥0.9 billion (a decrease of 52.6% year on year).

Overseas sales
Overseas sales were ¥61.1 billion (an increase of 44.4% year on year), due to the depreciation of the yen and an increase of Actemra exports to Roche in volume basis.

2) R&D activities

In Japan and overseas, the Chugai Group ("the Group") is actively engaged in prescription pharmaceutical R&D activities and is working to develop innovative products with global applications, focusing on the oncology field. In Japan, the Group has established research bases in Fuji Gotemba and Kamakura, which are collaborating to develop new pharmaceuticals, and its research facilities in Ukima are conducting industrialization research. Overseas, Chugai Pharma U.S.A., LLC (United States); Chugai Pharma Europe Ltd. (United Kingdom); Chugai Pharma Science (Beijing) Co., Ltd. (China); and Chugai Pharma R&D Taiwan Ltd. (Taiwan) are engaged in clinical development and submission of applications in their respective countries. Chugai Pharmabody Research Pte. Ltd. (Singapore) and jointly controlled businesses C&C Research Laboratories (South Korea) are engaged in pharmaceutical research and development.

In the fiscal year under review, R&D expenses on a Core basis totaled ¥74.1 billion.

3) Outlook for the next fiscal year

Forecast assumptions
In preparing this performance outlook, Chugai has assumed exchange rates of ¥116/CHF, ¥142/EUR, and ¥104/USD. Chugai has also assumed that the magnitude of the influenza epidemic will be about the same as the average for the past 10 years, excluding the epidemic of the new strain of influenza in the 2009/2010 season.

Outlook for the fiscal year
Revenues
Our outlook for sales of Tamiflu is ¥8.8 billion (a decrease of 20.0% year on year), including ¥0.1 billion in orders for government stockpiles.

Domestic sales, excluding Tamiflu, are forecast to rise steadily to ¥335.7 billion (an increase of 2.0% year on year). Although a NHI reimbursement price revision is expected to have an impact, sales of Avastin and other drugs in the oncology domain, as well as sales of Edirol, Actemra and Mircera are expected to show continued growth, and newly launched Perjeta and Bonviva will contribute as well. In addition, Chugai plans to launch a number of new products in the current fiscal year, and the contributions from these sources have been taken into account, with specified assumption, in preparing the forecasts.

Exports to Roche are expected to show steady increases to ¥64.6 billion (an increase of 50.6% year on year), reflecting the impact of yen depreciation and continued growth in sales of Actemra overseas. On the other hand, overseas sales of other products are forecast to remain at the level of the previous year as the weaker Japanese yen will compensate for a decline in sales of Neutrogin owing to competition from follow-on biologics.

Royalties and other operating income are forecast to rise to ¥24.0 billion (an increase of 7.1% year on year) because of increases in income from out-licensing and from Roche for co-promotion and royalties of Actemra.

Core Operating Profit / Core EPS
Profitwise, gross profit is expected to be at the level of the previous year, despite the increases in revenues, due to a significant increase in the cost of sales, primarily attributable to the weaker Japanese yen. In addition, budgeted costs have been increased to reflect higher costs arising from progress in development themes originating in Chugai, increased activities at Chugai Pharmabody Research Pte. Ltd., and the weaker Japanese yen. As a result, the budgets have been expanded. Core operating profit is, therefore, forecast to be ¥71.0 billion (a decrease of 11.1% year on year). Core EPS will be ¥82.62 (a decrease of 12.7% year on year).

(Billions of yen)

	Outlook for the year ending Dec. 2014	% Change
Revenues	451.0	+6.4
Sales excluding Tamiflu	418.2	+7.2
Core operating profit	71.0	(11.1)

Note: Core EPS
Core EPS is net income per share, attributable to shareholders of Chugai, after subtraction, at the Chugai's discretion, of non-recurring profit and loss items and after full dilution for latent shares. For detailed information on the items subtracted and other related matters, please refer to "Notice concerning adoption of International Financial Reporting Standards (IFRS)". http://www.chugai-pharm.co.jp/html/press/pdf/2012/121214eSupplementaryMaterials.pdf on page 11-13 for the detail of IFRS (core basis).

Note: Figures mentioned in (1) are rounded to the nearest 0.1 billion yen, and changes in amounts and percentages have been calculated using data denominated in ¥0.1 billion units.

(2) Analysis concerning financial status

1) Assets, liabilities, and net assets in billions of yen

	December 31, 2013	December 31, 2012	% change
Movements of assets and liabilities			
Net working capital	177.1	157.9	+12.2
Long-term net operating assets	148.1	150.0	(1.3)
Net operating assets (NOA)	**325.2**	**307.9**	**+5.6**
Net cash	234.4	211.7	+10.7
Other non-operating assets - net	13.6	9.6	+41.7
Total net assets	**573.2**	**529.2**	**+8.3**
Consolidated balance sheet (IFRS basis)			
Total assets	697.2	645.3	+8.0
Total liabilities	(124.0)	(116.2)	+6.7
Total net assets	573.2	529.2	+8.3

Net working capital at December 31, 2013 was ¥177.1 billion (an increase of ¥19.2 billion since December 31, 2012). This was due to an increase in inventories accompanying expansion in the scale of major product sales and other factors. In addition, long-term net operating assets were ¥1.9 billion lower than at the end of the previous fiscal year due to a decrease in property, plant and equipment accompanying depreciation and other factors, and stood at ¥148.1 billion at the end of the fiscal year under review. As a result, net operating assets (NOA) were ¥325.2 billion, ¥17.3 billion higher than at 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 ¥22.7 billion since December 31, 2012 to ¥234.4 billion. Also, other non-operating assets - net increased ¥4.0 billion since the end of the previous fiscal year to ¥13.6 billion due mainly to an increase in foreign exchange contracts assets.

As a consequence, total net assets were ¥573.2 billion (an increase of ¥44.0 billion since December 31, 2012).

Note: Movements of assets and liabilities
The consolidated balance sheet has been prepared in accordance with the International Accounting Standards (IAS) No. 1, "Presentation of Financial Statements". On the other hand, "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 of IFRS 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".

2) Cash flows in billions of yen

	Year ended December 31		
	2013	2012	% change
Movements of free cash flows			
Operating profit - IFRS basis	78.7	74.7	+5.4
Operating cash flows after adjustments	97.3	88.2	+10.3
Operating free cash flows	63.0	91.0	(30.8)
Free cash flows	15.0	39.3	(61.8)
Net change in net cash	22.7	42.2	(46.2)
Consolidated statement of cash flows (IFRS basis)			
Cash flows from operating activities	53.5	77.5	(31.0)
Cash flows from investing activities	(13.2)	(54.9)	(76.0)
Cash flows from financing activities	(23.2)	(22.8)	+1.8
Net change in cash and cash equivalents	19.6	1.0	20 times
Cash and cash equivalents at December 31	115.1	95.4	+20.6

Operating profit, net of operating cash adjustments, which are 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, amounted to a net cash inflow of ¥97.3 billion. The principal items influencing this result were a total of ¥15.2 billion in property, plant and equipment depreciation and impairment.

Operating free cash flows, which are calculated by deducting an increase in net working capital of ¥19.7 billion and subtracting expenditures of ¥14.7 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 ¥63.0 billion. Factors accounting for the change 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 R&D equipment and plant production machinery.

Free cash flows (“FCF”), which are calculated by subtracting a total of ¥47.9 billion comprising cash flows from financial asset management, income taxes paid, and dividends paid from operating free cash flows, amounted to a net cash inflow of ¥15.0 billion.

As a result, the net change in net cash, after foreign currency translation adjustments, increased ¥22.7 billion in comparison with the same period 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 ¥19.6 billion. As a result, the cash and cash equivalents balance at the end of this fiscal year amounted to ¥115.1 billion.

Note: Movements of free cash flows (FCF)
The consolidated statement of cash flows has been prepared in accordance with the International Accounting Standard (IAS) No. 7, “Statement of Cash Flows”. On the other hand, the 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 the 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”.

Note: In the items in 1) and 2) of (2), amounts less than ¥0.1 billion have been rounded to the nearest ¥0.1 billion. Figures for changes in amounts and percentages have been calculated using data denominated in ¥0.1 billion units.

3) Cash flow related materials

	Year ended December 31	
	2013	2012
Ratio of equity attributable to Chugai shareholders (%)	82.0	81.8
Ratio of equity attributable to Chugai shareholders on a market basis (%)	181.7	139.2
Interest-bearing debt to cash flows ratio (%)	0.4	0.3
Interest-coverage ratio (times)	4,989.9	8,430.3

Ratio of equity attributable to Chugai shareholders : Equity attributable to Chugai shareholders / Total assets
Ratio of equity attributable to Chugai shareholders on a market basis: Total market capitalization / Total assets
Interest-bearing debt to cash flows ratio: Interest-bearing debt / Cash flows
Interest-coverage ratio: Cash flows / Interest payments

Notes:
1. *All of the figures in the aforementioned indices were calculated on a consolidated basis.*
2. *Total market capitalization was calculated by multiplying the closing stock price at the end of the term by the total number of outstanding shares at the end of the term (excluding treasury stock).*
3. *Cash flows were shown as an operating cash flow in the consolidated statement of cash flows.*
4. *Interest-bearing debt refers to all debt posted in the consolidated balance sheet upon which interest is paid.*
5. *The amount of interest paid in the consolidated statement of cash flows was treated as an interest payment in the calculations above.*

(3) Basic profit distribution principles and dividends for the fiscal year under review and the following fiscal year

Regarding income distribution, taking account of strategic funding needs and earnings prospects, Chugai aims for a consolidated dividend payout ratio of 50% on average in comparison with Core EPS to provide for a stable allocation of profit to all shareholders. In addition, internal reserves will be used to increase corporate value through investments to attain further growth in existing strategic domains and to identify future business opportunities.

Note that year-end regular dividends for the fiscal year ended December 31, 2013, are planned to be ¥23 per share as previously forecasted. As a result, total dividends for the year will be ¥45 per share, and the Core dividend payout ratio is 47.5% (an average of 47.9% for the past five years).

For the following fiscal year, ending December 31, 2014, Chugai expects total estimated dividends of ¥45 per share, including interim dividend payments of ¥22 per share. Accordingly, the forecast for the Core dividend payout ratio is 54.5% (an average of 51.6% for the past five years) in 2014.

(4) Business risks

The Group's corporate performance is subject to major impact from a range of possible future events. Listed below are what are considered to be the Group's principal sources of risk for the development of its business. The Group recognizes the possibility of these risk events actually occurring and has prepared policies to forestall such risks and take appropriate measures when they do occur.

The future risks identified in this section are based on assessments made by Chugai as of the end of the consolidated fiscal year under review.

1) New product research and development

With the goal of becoming a top Japanese pharmaceutical enterprise capable of continuously delivering innovative new medicines, the Group aggressively pursues R&D in Japan and overseas. The Group has an enriched number of development pipelines, especially in the field of oncology. However, bringing all of these drugs smoothly through to the market from the R&D stages may not be possible, and the Group expects to have to abandon development in some cases. When such a situation occurs, there is a possibility of a major impact on the Group's business performance and financial position, depending on the product under development.

2) Changes in product environments

In recent years, there have been rapid technological advancements in the pharmaceutical industry, and the Group faces fierce competition from pharmaceutical companies in Japan and overseas. The Group's business performance and financial position may be significantly affected by changes in product environments caused by the sale of competing products and generic products and also by changes in contracts concluded by the Group for marketing agreements or the licensing of technologies.

3) Side effects

Medical products are approved in Japan by the Ministry of Health, Labour and Welfare after stringent screening. However, when drugs go into general usage, even if thorough safety measures are implemented, it is difficult to fully prevent side effects due to its distinctive nature. When the Group's pharmaceuticals go into use and side effects, particularly new and serious ones, are discovered, there is a risk of significant impact on the Group's business performance and financial position.

4) Reform of Japan's medical insurance system

Japan's medical insurance system is being reformed against a backdrop of rapid demographic change, with a falling birthrate and increasing numbers of aged citizens. As part of this process, measures are being taken to curb medical expenses. Revisions have been made to the system of reimbursement of medical fees, and debate is continuing in such areas as the NHI drug price revision. The Group's business performance and financial position could be significantly affected by future developments in medical system reform, including the NHI drug price revision.

5) Intellectual property (IP) rights

The Group recognizes that it applies intellectual property rights in pursuing its business activities and takes care to distinguish its own proprietary intellectual property rights and licensing arrangements recognized under law. However, the possibility remains that the Group may infringe on third-party intellectual property rights without being aware of this fact. Major disputes related to intellectual property rights relating to the Group's business could have a major impact on the Group's business performance and financial position.

6) Strategic alliance with Roche

In line with its strategic alliance with Roche, the Group is the only pharmaceutical partner of Roche in the Japanese market and has licensed-in and out-licensed many products and projects from and to Roche. In the event that the Group's strategic alliance with Roche is changed for some reason, such circumstances could have a major impact on the Group's business performance and financial position.

7) International business activities

The Group engages aggressively in international business activities, including sales of pharmaceuticals and R&D activities overseas as well as exporting and importing of bulk pharmaceuticals. In these international business activities, the Group may confront changes in laws and regulations, political instability, uncertainties regarding economic trends, issues related to relationships with labor in local markets, changes in tax systems and diversity in interpretation of such systems, fluctuations in foreign currency rates, differences in business practices, and other risks. Such circumstances could have a major impact on the Group's business performance and financial position.

8) Effects of major disasters and other contingencies

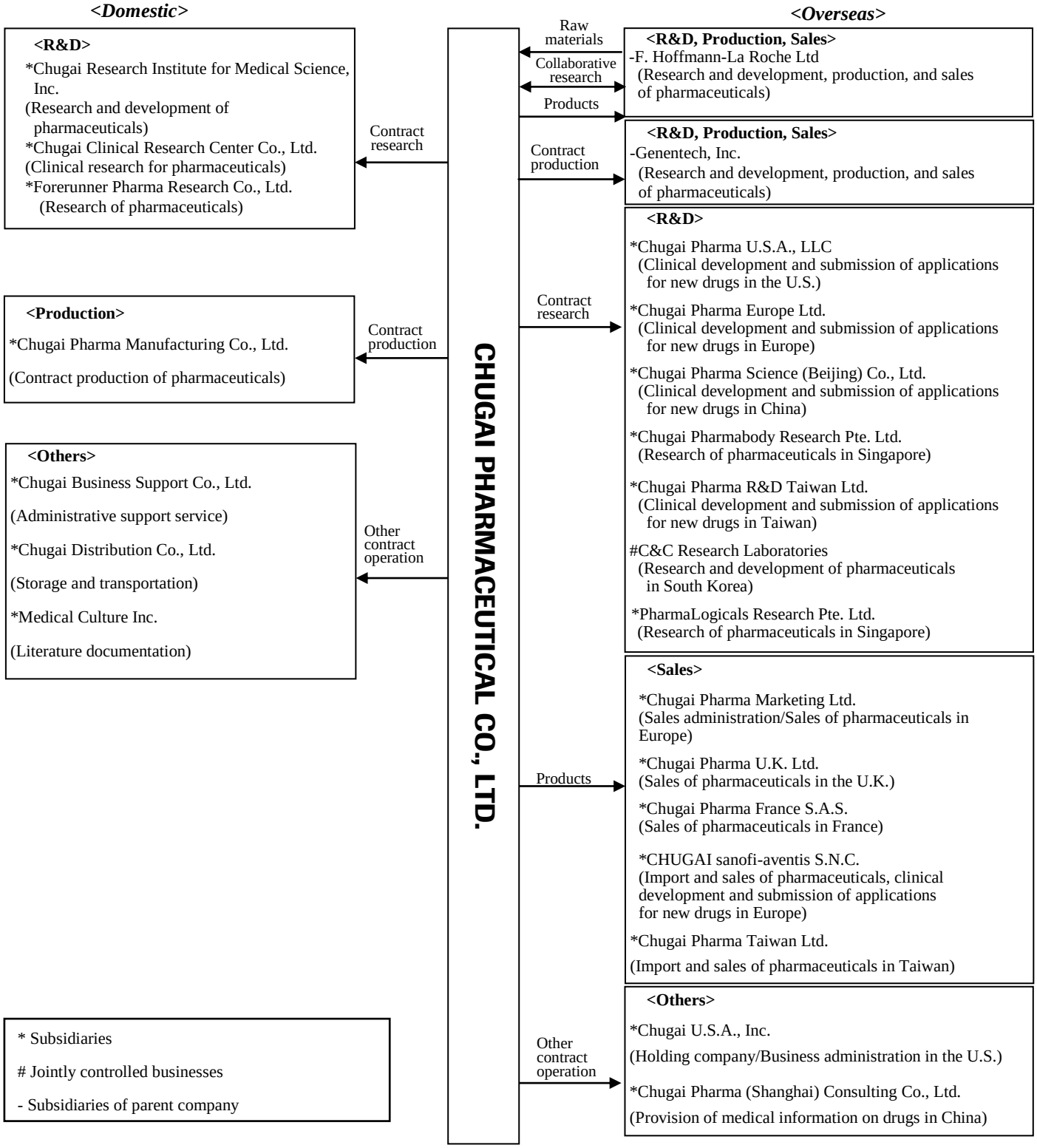
In the event of natural disasters, such as earthquakes and typhoon, as well as accidents, such as fires and other contingencies, the Group's business sites and marketing locations as well as those of its business partners may suffer serious damage and operations may become stagnant. Also, major expenditures may have to be made to repair equipment and other assets that suffer damage. Such circumstances could have a major impact on the Group's business performance and financial position.

2. Outline of the Chugai Group

The Group consists of the company submitting the consolidated financial statements, 20 subsidiaries, one jointly controlled business, and two subsidiaries of the parent company. The major businesses conducted by the Group and how companies in the Group are positioned in relation to those businesses are summarized in the diagram below.

PHARMACEUTICAL SEGMENT

(As of Dec. 31, 2013)



- There is no subsidiary listed on a stock exchange.
- We have omitted disclosure about the status of subsidiaries and jointly controlled businesses since there have not been any material changes since we disclosed the status of subsidiaries and jointly controlled businesses in our most-recent report on securities filed on March 27, 2013.

3. Management Principles and Goals

(1) Basic management principles

In line with its strategic alliance with the world-leading pharmaceutical company Roche, the Group has established "dedicating itself to creating new values through the provision of innovative medical products and services for the benefit of the medical community and human health around the world" as its mission and "becoming a top Japanese pharmaceutical company which provides a continuous flow of innovative new medicines domestically and internationally" as its fundamental management objective.

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

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

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

Having drafted its new medium-term business plan "ACCEL 15" which covers the period from fiscal year 2013 through fiscal year 2015, the Group is moving ahead with measures designed to expeditiously realize its objective of becoming a top pharmaceutical company.

The environment for the pharmaceutical business is undergoing dramatic changes-economic growth in emerging countries and progressive demographic graying throughout the world are magnifying expectations and needs with respect to pharmaceuticals while, on the other hand, various challenges are being presented, such as the increasing difficulty of R&D projects owing to the targeting of more-difficult-to-treat diseases and the intensification of downward pressures on prices against the backdrop of financial crises in many countries.

Amid this environment, the Group has been leveraging its close relationship with Roche to license-in products from Roche's development pipeline as well as to arrange for cooperation regarding the promotion of personalized healthcare (PHC) and global development and marketing programs as means of creating systems capable of efficiently and continuously developing and marketing new drugs. The Group has also worked to further bolster its own strengths, achieving groundbreaking results in such fields as leading-edge drug discovery technologies, such as those related to next-generation antibody drugs, and consulting-based promotion, which has enabled it to capture the top share of the domestic oncology market.

The new medium-term business plan "ACCEL 15" is designed to further augment such competitive strengths and promote sustained growth in corporate value. It calls for emphasizing reform measures related to the following objectives.

1) Increasing marketing productivity

By effectively making the most of Avastin, Actemra, and numerous other new drugs developed in-house or licensed-in from Roche, the Group has been building solid presences in Japanese markets for drugs in the oncology, renal disease, bone and joint disease fields as well as other fields. Going forward, besides continuously launching outstanding first-in-class and best-in-class drugs, the Group will strive to promote PHC, increase the use of consulting-based promotion based on efficacy- and safety-related evidence generated during clinical trials, and further augment its contributions to the promotion of standards of care and to improving regional medical care capabilities, thereby seeking to provide patients and medical professionals with solutions that are even more effective than previously. At the same time, the Group will move ahead with marketing system reforms designed to upgrade capabilities for flexibly and efficiently responding to changes in the medical care provision environment and to raise the level of marketing productivity.

In addition, in overseas markets, the Group will be taking steps going forward to realize sales growth centered on measures undertaken in cooperation with Roche with respect to Actemra.

2) Accelerating global development

The Group holds a development pipeline well-stocked with items generated by its own research units as well as items obtained from Roche. To respond to unmet medical needs of patients and medical professionals throughout the world, the Group is working to strengthen its clinical science capabilities and build its own global development systems so that it can quickly determine the clinical and business values of individual development projects as means of accelerating the

development and marketing of new products.

Moreover, by proactively licensing products and projects to and from Roche, promoting cooperative global clinical trials, and taking other initiatives, the Group is seeking to increase the closeness and flexibility of mutual cooperation systems as means of implementing both companies' development projects with maximum speed. In this way, the Group is moving to promote the rapid approval and launch of new products in Japan, the United States, Europe, emerging countries, and elsewhere.

3) Continuously generating innovative projects

The Group has leveraged its special strengths with respect to biopharmaceutical research to move ahead with the generation of such innovative drugs as Actemra, the first antibody drug created in Japan. Regarding small molecule drugs, also, the Group has successfully supplemented its own accumulated technologies with Roche's compound library to achieve a dramatic strengthening of its drug discovery base. Moreover, the Group has been proactively promoting open innovation by networking with academic and other institutions.

Efforts in the biopharmaceutical field have been particularly successful, leading to the world's most-advanced results with respect to the establishment of such next-generation antibody technologies as recycling antibody and sweeping antibody technologies, cancer stem cell research, and other research topics.

Aiming to use these achievements to address medical needs as quickly as possible, during 2012, the Group established Singapore-based Chugai Pharmabody Research Pte. Ltd., thereby establishing systems for continuously generating innovative development projects.

Going forward, the Group will be leveraging these innovative drug discovery technologies and drug discovery research systems to further accelerate its generation of outstanding first-in-class and best-in-class pharmaceutical products.

4) Further strengthening the management foundation

The Group is employing a business model with a superior risk-return balance that is centered on a win-win relationship with Roche and, through relentless cost-cutting efforts, it has been able to realize top-class profitability in Japan.

To promote continuous growth in corporate value while responding to changes in its operating environment going forward, the Group is taking measures to control fixed expenses associated with personnel, facility, and other aspects of its operations while making further cost reduction efforts, thereby moving ahead with the building of a cost structure characterized by still-greater efficiency and flexibility.

At the same time, the Group is flexibly implementing strategic investments designed to make the most of opportunities for expanding its corporate value.

Regarding human resources, the Group is accelerating measures to promote diversity in terms of nationality, gender, and other characteristics, and it is strengthening its human resource systems capabilities for promoting innovation based on broad perspectives and diverse expertise.

By means of these reforms, the Group is seeking to increase the value it provides to shareholders and all other types of stakeholders as it proceeds towards its objective of becoming a top pharmaceutical company.
During the period through fiscal 2015, the final year of the new Medium-Term Business Plan, the Group is forecasting that it will achieve average annual growth in its Core EPS (assuming at constant currency exchange rates of 2012) at a middle-to-high single-digit rate.

For further details on Core EPS, please refer to "Outlook for the next fiscal year" on page 5.

4. Consolidated Financial Statements

(1) Consolidated income statement and consolidated statement of comprehensive income

1) Consolidated income statement in millions of yen

	Year ended December 31	
	2013	2012
Revenues	**423,652**	**386,552**
Sales	401,298	375,234
Royalties and other operating income	22,354	11,318
Cost of sales	(186,977)	(168,152)
Gross profit	**236,675**	**218,400**
Marketing and distribution	(71,588)	(67,873)
Research and development	(74,280)	(66,639)
General and administration	(12,069)	(9,225)
Operating profit	**78,738**	**74,663**
Financing costs	(12)	(40)
Other financial income (expense)	(1,782)	(1,945)
Profit before taxes	**76,944**	**72,678**
Income taxes	(25,058)	(25,837)
Net income	**51,886**	**46,841**
Attributable to :		
Chugai shareholders	50,895	46,052
Non-controlling interests	991	789
Earnings per share		
Basic (yen)	93.47	84.62
Diluted (yen)	93.35	84.58

2) Consolidated statement of comprehensive income in millions of yen

	Year ended December 31	
	2013	2012
Net income recognized in income statement	**51,886**	**46,841**
Other comprehensive income		
Remeasurements of defined benefit plans	964	1,275
Items that will not be reclassified to the income statement	**964**	**1,275**
Available-for-sale investments	1,834	930
Cash flow hedges	4,090	73
Currency translation of foreign operations	8,019	3,369
Items that may be reclassified subsequently to the income statement	**13,942**	**4,372**
Other comprehensive income, net of tax	**14,907**	**5,647**
Total comprehensive income	**66,793**	**52,488**
Attributable to:		
Chugai shareholders	65,497	51,564
Non-controlling interests	1,296	924

(2) Consolidated balance sheet in millions of yen

	December 31, 2013	December 31, 2012	January 1, 2012 (Date of transition to IFRS)
Assets			
Non-current assets:			
Property, plant and equipment	140,445	143,056	143,356
Intangible assets	9,514	6,500	6,548
Financial non-current assets	9,066	6,332	4,946
Deferred tax assets	19,244	20,735	24,042
Defined benefit plan assets	3,862	2,680	993
Other non-current assets	10,846	10,921	11,316
Total non-current assets	**192,977**	**190,224**	**191,202**
Current assets:			
Inventories	128,536	108,413	102,834
Accounts receivable	128,182	128,306	119,506
Current income tax assets	205	344	27
Marketable securities	119,573	116,484	75,177
Cash and cash equivalents	115,070	95,445	94,474
Other current assets	12,669	6,108	4,035
Total current assets	**504,235**	**455,100**	**396,054**
Total assets	**697,212**	**645,325**	**587,255**
Liabilities			
Non-current liabilities:			
Long-term debt	(195)	(213)	(170)
Deferred tax liabilities	(12,211)	(9,963)	(9,342)
Defined benefit plan liabilities	(1,269)	(747)	(655)
Long-term provisions	(2,082)	(1,893)	(1,907)
Other non-current liabilities	(10,584)	(8,630)	(4,531)
Total non-current liabilities	**(26,341)**	**(21,446)**	**(16,606)**
Current liabilities:			
Short-term debt	(38)	(44)	(22)
Current income tax liabilities	(12,673)	(11,437)	(13,731)
Short-term provisions	(105)	(5)	(273)
Accounts payable	(59,544)	(60,096)	(35,895)
Other current liabilities	(25,307)	(23,135)	(21,740)
Total current liabilities	**(97,667)**	**(94,718)**	**(71,661)**
Total liabilities	**(124,008)**	**(116,164)**	**(88,266)**
Total net assets	**573,204**	**529,161**	**498,989**
Equity:			
Capital and reserves attributable to Chugai shareholders	571,692	527,961	497,782
Equity attributable to non-controlling interests	1,512	1,200	1,207
Total equity	**573,204**	**529,161**	**498,989**

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

	Year ended December 31	
	2013	2012
Cash flows from operating activities		
Cash generated from operations	100,959	91,553
(Increase) decrease in working capital	(19,660)	16,335
Payments made for defined benefit plans	(2,327)	(2,642)
Utilization of provisions	(163)	(288)
Other operating cash flows	(1,461)	(1,915)
Cash flows from operating activities, before income taxes paid	**77,348**	**103,043**
Income taxes paid	(23,827)	(25,501)
Total cash flows from operating activities	**53,521**	**77,542**
Cash flows from investing activities		
Purchase of property, plant and equipment	(11,287)	(14,849)
Purchase of intangible assets	(3,377)	(790)
Disposal of property, plant and equipment	(300)	30
Interest and dividends received	419	441
Purchases of marketable securities	(240,860)	(197,493)
Sales of marketable securities	242,198	157,985
Other investing cash flows	(6)	(224)
Total cash flows from investing activities	**(13,213)**	**(54,901)**
Cash flows from financing activities		
Interest paid	(11)	(9)
Dividends paid to Chugai shareholders	(22,874)	(21,778)
Dividends paid to non-controlling shareholders	(983)	(930)
Exercise of equity compensation plans	820	45
(Increase) decrease in own equity instruments	(12)	(4)
Other financing cash flows	(109)	(115)
Total cash flows from financing activities	**(23,169)**	**(22,792)**
Net effect of currency translation on cash and cash equivalents	2,486	1,121
Increase in cash and cash equivalents	**19,625**	**971**
Cash and cash equivalents at January 1	95,445	94,474
Cash and cash equivalents at December 31	**115,070**	**95,445**

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

	Attributable to Chugai shareholders						
	Share capital	Capital surplus	Retained earnings	Other reserves	Subtotal	Non-controlling interests	Total equity
Year ended December 31, 2012							
At January 1, 2012	**72,967**	**64,385**	**371,560**	**(11,129)**	**497,782**	**1,207**	**498,989**
Net income recognized in income statement	-	-	46,052	-	46,052	789	46,841
Available-for-sale investments	-	-	-	930	930	-	930
Cash flow hedges	-	-	-	73	73	-	73
Currency translation of foreign operations	-	-	-	3,231	3,231	138	3,369
Remeasurements of defined benefit plans	-	-	1,278	-	1,278	(3)	1,275
Total comprehensive income	**-**	**-**	**47,330**	**4,234**	**51,564**	**924**	**52,488**
Dividends	-	-	(21,768)	-	(21,768)	(930)	(22,698)
Equity compensation plans	-	206	-	-	206	-	206
Own equity instruments	-	77	-	-	77	-	77
Other movements	-	-	99	-	99	-	99
At December 31, 2012	**72,967**	**64,668**	**397,221**	**(6,895)**	**527,961**	**1,200**	**529,161**
Year ended December 31, 2013							
At January 1, 2013	**72,967**	**64,668**	**397,221**	**(6,895)**	**527,961**	**1,200**	**529,161**
Net income recognized in income statement	-	-	50,895	-	50,895	991	51,886
Available-for-sale investments	-	-	-	1,834	1,834	-	1,834
Cash flow hedges	-	-	-	4,090	4,090	-	4,090
Currency translation of foreign operations	-	-	-	7,716	7,716	303	8,019
Remeasurements of defined benefit plans	-	-	963	-	963	2	964
Total comprehensive income	**-**	**-**	**51,858**	**13,639**	**65,497**	**1,296**	**66,793**
Dividends	-	-	(22,866)	-	(22,866)	(983)	(23,850)
Equity compensation plans	-	138	-	-	138	-	138
Own equity instruments	-	962	-	-	962	-	962
Other movements	-	-	-	-	-	-	-
At December 31, 2013	**72,967**	**65,768**	**426,213**	**6,744**	**571,692**	**1,512**	**573,204**

(5) Notes regarding the going concern assumption

None

(6) Notes to the consolidated financial statements

1. General accounting principles and significant accounting policies

1) Basis of preparation of the consolidated financial statements

These financial statements are the annual consolidated financial statements of Chugai Pharmaceutical Co., Ltd., a company registered in Japan, and its subsidiaries. The common stock of Chugai is publicly traded and is listed on the Tokyo Stock Exchange under the stock code "TSE: 4519". The consolidated financial statements were approved by the Board of Directors on January 30, 2014.

Roche Holding Ltd. is a public company registered in Switzerland and the parent company of the Roche Group, which discloses its results in accordance with International Financial Reporting Standards ("IFRS"). The shareholding percentage of Roche Holding Ltd. in Chugai is 59.89% and the percentage ownership interest is 61.5%. Chugai and its subsidiaries 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" 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, "the regulation"). Hence, in accordance with Article 93 of the regulation, the consolidated financial statements have been prepared in accordance with IFRS.

The consolidated financial statements are the first annual financial statements for the Group prepared in accordance with IFRS. Previously, the consolidated financial statements were prepared in conformity with accounting principles generally accepted in Japan ("JGAAP"). The last consolidated financial statements prepared under JGAAP were for the fiscal year ended December 31, 2012.

The date of transition to IFRS for the Group is January 1, 2012. Included in Note 8 of these consolidated financial statements are reconciliations of equity under JGAAP as compared to under IFRS as of January 1, 2012 and December 31, 2012. Note 8 also includes a reconciliation of the net income and comprehensive income reported for the year ended December 31, 2012 between JGAAP and IFRS.

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

2) Key accounting judgments, estimates and assumptions

The preparation of the consolidated 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 following are considered to be the key accounting judgments, estimates and assumptions made and believed to be appropriate based upon currently available information.

Revenues. Revenues are only recognized when, in management's judgment, the significant risks and rewards of ownership have been transferred and when the Group does not retain continuing managerial involvement or effective control over the goods sold or when the obligation has been fulfilled. The Group is party to out-licensing agreements which involve upfront and milestone payments occurring over several years and which may also involve certain future obligations. Therefore, for some transactions this can result in cash receipts being initially recognized as deferred income and then released to income over subsequent periods on the basis of the performance of the conditions specified in the agreement.

Sales allowances. The Group makes accruals for expected sales rebates, which are estimated based on analyses of existing contractual or legislatively-mandated obligations, historical trends and the Group's experience. As these deductions are based on management estimates, they may be subject to change as better information becomes available. Such changes that arise could impact the accruals recognized in the balance sheet in future periods and consequently the level of sales recognized in the income statement in future periods.

Impairment. Intangible assets not yet available for use are reviewed annually for impairment. Property, plant and equipment and intangible assets in use are assessed for impairment when there is a triggering event that provides evidence that an asset may be impaired. To assess whether any impairment exists estimates of expected future cash flows are used. Actual outcomes could vary significantly from such estimates of discounted future cash flows. Factors such as changes in discount rates, the planned use of buildings, machinery or equipment, closure of facilities, the presence or absence of competition, technical obsolescence and lower than anticipated product sales could lead to shorter useful lives or impairment.

Post-employment benefits. The Group operates defined benefit plans and the fair value of the recognized plan assets and liabilities are based upon statistical and actuarial calculations. The measurement of the net defined benefit obligation is particularly sensitive to changes in the discount rate and expected mortality. The actuarial assumptions used may differ materially from actual results due to changes in market and economic conditions, longer or shorter life spans of participants, and other changes in the factors being assessed. These differences could impact on the assets or liabilities recognized in the balance sheet in future periods.

Legal. The Group provides for anticipated legal settlement costs when there is a probable outflow of resources that can be reasonably estimated. These estimates consider the specific circumstances of each legal case and relevant legal advice, and are inherently judgmental due to the highly complex nature of legal cases. The estimates could change substantially over time as new facts emerge and each legal case progresses. Where no reliable estimate can be made, no provision is recorded and contingent liabilities are disclosed where material.

Environmental. The Group provides for anticipated environmental remediation costs when there is a probable outflow of resources that can be reasonably estimated. Environmental provisions consist primarily of costs to fully clean and refurbish contaminated sites, including landfills, and to treat and contain contamination at certain other sites. These estimates are inherently judgmental due to uncertainties related to the detection of previously unknown contaminated sites, the method and extent of remediation, the percentage of the problematic materials attributable to the Group at the remediation sites, and the financial capabilities of the other potentially responsible parties. The estimates could change substantially over time as new facts emerge and each environmental remediation progresses.

Taxes. Significant estimates are required to determine the current and deferred tax assets and liabilities. Some of these estimates are based on interpretations of existing tax laws or regulations. Factors that may impact on current and deferred taxes include changes in tax laws, regulations or rates, changing interpretations of existing tax laws or regulations, future levels of research and development spending and changes in pre-tax earnings.

Leases. The treatment of leasing transactions is mainly determined by whether the lease is considered to be an operating or finance lease. In making this assessment, management looks at the substance of the lease, as well as the legal form, and makes a judgment about whether substantially all of the risks and rewards of ownership are transferred. Arrangements which do not take the legal form of a lease but that nevertheless convey the right to use an asset are also covered by such assessments.

3) Significant accounting policies

Consolidation policy

Subsidiaries are all companies over which the Group has control. Chugai controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Companies acquired during the year are consolidated from the date on which control is transferred to the Group, and subsidiaries to be divested are included up to the date on which control passes from the Group. Inter-company balances, transactions and resulting unrealized income are eliminated in full. Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has already been obtained and if they do not result in a loss of control. Associates are companies over which the Group exercises, or has the power to exercise, significant influence, but which it does not control and they are accounted for using the equity method.

Foreign currency translation

Most foreign subsidiaries of the Group use their local currency as their functional currency. Certain foreign subsidiaries use other currencies (such as the euro) as their functional currency where this is the currency of the primary economic environment in which the entity operates. Local transactions in other currencies are initially reported using the exchange rate at the date of the transaction. Gains and losses from the settlement of such transactions and gains and losses on translation of monetary assets and liabilities denominated in other currencies are included in income, except when they are qualifying cash flow hedges. In such cases the gains and losses are deferred into other comprehensive income.

Upon consolidation, assets and liabilities of foreign subsidiaries using functional currencies other than the Japanese yen are translated into Japanese yen using year-end rates of exchange. The income statement and statement of cash flows are translated at the average rates of exchange for the year. Translation differences due to the changes in exchange rates between the beginning and the end of the year and the difference between net income translated at the average and year-end exchange rates are taken directly to other comprehensive income.

Revenue recognition

Sales represent amounts received and receivable for goods supplied to customers after deducting trade discounts, cash discounts and volume rebates, and exclude consumption taxes and other taxes directly linked to sales. Revenues from the sale of products are recognized upon transfer to the customer of significant risks and rewards. Trade discounts, cash discounts and volume rebates are recorded on an accrual basis consistent with the recognition of the related sales. Sales returns, charge-backs and other rebates are also deducted from sales and recorded as accrued liabilities or as a deduction from accounts receivable.

Royalties and other operating income are recorded as earned or as the services are performed. Single transactions are split into separately identifiable components to reflect the substance of the transaction, where necessary. Conversely, two or more transactions may be considered together for revenue recognition purposes, where the commercial effect cannot be understood without reference to the series of transactions as a whole.

Cost of sales

Cost of sales includes the corresponding direct production costs and related production overheads of goods sold and services rendered. Royalties, alliance and collaboration expenses, including all collaboration profit-sharing arrangements are also reported as part of cost of sales. Start-up costs between validation and the achievement of normal production capacity are expensed as incurred.

Research and development

Internal research and development activities are expensed as incurred for the following:

- Internal research costs incurred for the purpose of gaining new scientific or technical knowledge and understanding.
- Internal development costs incurred for the application of research findings or other knowledge to plan and develop new products for commercial production. The development projects undertaken by the Group are subject to technical, regulatory and other uncertainties, such that, in the opinion of management, the criteria for capitalization as intangible assets are not met prior to obtaining marketing approval by the regulatory authorities in major markets.
- Post-marketing studies after regulatory approval, such as phase IV costs in the pharmaceuticals business, generally involve safety surveillance and on-going technical support of a drug after it receives marketing approval to be sold. They may be required by regulatory authorities or may be undertaken for safety or commercial reasons. The costs of such post-marketing studies are not capitalized as intangible assets, as in the opinion of management, they do not generate separately identifiable incremental future economic benefits that can be reliably measured.

Acquired in-process research and development resources obtained through in-licensing arrangements, business combinations or separate asset purchases are capitalized as intangible assets. The acquired asset must be controlled by the Group, be separately identifiable and expected to generate future economic benefits, even if uncertainty exists as to whether the research and development will ultimately result in a marketable product. Consequently, upfront and milestone payments to third parties for pharmaceutical products or compounds before regulatory marketing approval are recognized as intangible assets. Assets acquired through such arrangements are measured on the basis set out in the “Intangible assets” policy. Subsequent internal research and development costs incurred post-acquisition are treated in the same way as other internal research and development costs. If research and development are embedded in contracts for strategic alliances, the Group carefully assesses whether upfront or milestone payments constitute funding of research and development work or acquisition of an asset.

Licensing, milestone, and other upfront receipts

Royalty income is recognized on an accrual basis in accordance with the substance of the respective licensing agreements. If the collectability of a royalty amount is not reasonably assured, those royalties are recognized as revenues when the cash is received. The Group receives upfront, milestone and other similar payments from third parties relating to the sale or licensing of products or technology. Revenues associated with performance milestones are recognized based on achievement of the deliverables as defined in the respective agreements. Upfront payments and license fees for which there are subsequent deliverables are initially reported as deferred income and are recognized in income as earned over the period of the development collaboration or the manufacturing obligation.

Employee benefits

Short-term employee benefits include wages, salaries, social security contributions, paid annual leave and sick leave, profit sharing and bonuses, and non-monetary benefits for current employees. The costs are recognized within the operating results when the employee has rendered the associated service. The Group recognizes a liability for profit sharing and bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. Termination costs are recognized at the earlier of when the Group can no longer withdraw the offer of the benefits or when the Group recognizes any related restructuring costs.

Post-employment benefits
For defined contribution plans, the Group contributions are recognized within the operating results when the employee has rendered the associated service.

For defined benefit plans the liability or asset recognized in the balance sheet is net amount of the present value of the defined benefit obligation and the fair value of the plan assets. All changes in the net defined benefit liability (asset) are recognized as they occur as follows:

Recognized in the income statement:
- Current service costs are charged to the appropriate income statement heading within the operating results.
- Past service costs, including curtailment gains or losses, are recognized immediately in general and administration within the operating results.
- Settlement gains or losses are recognized in general and administration within the operating results.
- Net interest on the net defined benefit liability (asset) is recognized in financing costs.

Recognized in other comprehensive income:
- Actuarial gains and losses arising from experience adjustments (the difference between previous assumptions and what has actually occurred) and changes in actuarial assumptions.
- The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset).

Net interest on the net defined benefit liability (asset) comprises of interest income on plan assets and interest costs on the defined benefit obligation. The net interest is calculated using the same discount rate that is used in calculating the defined benefit obligation, applied to the net defined benefit liability (asset) at the start of the period, taking account of any changes from contribution or benefit payments.

Pension assets and liabilities in different defined benefit plans are not offset unless the Group has a legally enforceable right to use the surplus in one plan to settle obligations in the other plan.

Equity compensation plans
The fair value of all equity compensation awards granted to directors and certain employees is estimated at the grant date and recorded as an expense over the vesting period. The expense is charged to the appropriate income statement heading within the operating results. For equity-settled plans, an increase in equity is recorded for this expense and any subsequent cash flows from exercises of vested awards are recorded as changes in equity.

Property, plant and equipment
Property, plant and equipment are initially recorded at cost of purchase or construction, and include all costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. These include items such as costs of site preparation, installation and assembly costs and professional fees. The net costs of testing whether the asset is functioning properly, including validation costs, are also included in the initially recorded cost of construction. Property, plant and equipment are depreciated on a straight-line basis, except for land, which is not depreciated. The estimated useful lives of major classes of depreciable assets are as follows:

Land improvements	40 years
Buildings	10-50 years
Machinery and equipment	3-15 years

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components. The estimated useful lives of the assets are regularly reviewed, and, if necessary, the future depreciation charges are accelerated. Repairs and maintenance costs are expensed as incurred.

Leases
Where the Group is the lessee, finance leases are when substantially all of the risks and rewards of ownership of leased assets are transferred to the Group. Finance lease assets are capitalized at the start of the lease at fair value, or the present value of the minimum lease payments, if lower. The rental obligation, net of finance charges, is reported within debt. Finance lease assets are depreciated over the shorter of the lease term and its useful life. The interest element of the lease payment is charged against income over the lease term based on the effective interest rate method. Operating leases are when substantially all of the risks and rewards of ownership are not transferred to the Group. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

Intangible assets
Purchased patents, trademarks, licenses and other intangible assets are initially recorded at cost. Assets that have been acquired through a business combination are initially recorded at fair value. Once available for use, intangible assets are amortized on a straight-line basis over their useful lives. The estimated useful life is the lower of the legal duration and the economic useful life. The estimated useful lives of intangible assets are regularly reviewed. Estimated useful lives of major classes of amortizable intangible assets are as follows:

Product intangibles in use	4-20 years
Marketing intangibles in use	2-5 years
Technology intangibles in use	7-14 years

Impairment of property, plant and equipment and intangible assets
An impairment assessment is carried out at each reporting date when there is evidence that an item of property, plant and equipment or intangible asset in use may be impaired. In addition intangible assets that are not yet available for use are tested for impairment annually. When the recoverable amount of an asset, being the higher of its fair value less costs to sell and its value in use, is less than its carrying value, then the carrying value is reduced to its recoverable amount. This reduction is reported in the income statement as an impairment loss. Value in use is calculated using estimated cash flows. These are discounted using an appropriate long-term interest rate. When an impairment loss arises, the useful life of the asset is reviewed and, if necessary, the future depreciation/amortization charge is accelerated. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through the income statement as an impairment reversal.

Inventories
Inventories are stated at the lower of cost and net realizable value. The cost of finished goods and work in process includes raw materials, direct labor and other directly attributable costs and overheads based upon the normal capacity of production facilities. Cost is determined using the weighted average method. Net realizable value is the estimated selling price less cost to completion and selling expenses.

Accounts receivable
Accounts receivable are carried at the original invoice amount less allowances made for doubtful accounts, trade discounts, cash discounts, volume rebates and similar allowances. An allowance for doubtful accounts is recorded where there is objective evidence that the Group will not be able to collect all amounts due. These estimates are based on specific indicators, such as the ageing of customer balances, specific credit circumstances and the Group's historical experience, taking also into account economic conditions. Expenses for doubtful trade receivables are recognized within marketing and distribution expenses. Trade discounts, cash discounts, volume rebates and similar allowances are recorded on an accrual basis consistent with the recognition of the related sales, using estimates based on existing contractual obligations, historical trends and the Group's experience.

Cash and cash equivalents
Cash and cash equivalents include cash on hand and time, call and current balances with banks and similar institutions. Such balances are only reported as cash equivalents if they are readily convertible to known amounts of cash, are subject to insignificant risk of changes in their fair value and have a maturity of three months or less from the date of acquisition.

Provisions and contingencies
Provisions are recognized where a legal or constructive obligation has been incurred which will probably lead to an outflow of resources that can be reliably estimated. In particular, restructuring provisions are recognized when the Group has a detailed formal plan that has either commenced implementation or has been announced. Provisions are recorded for the estimated ultimate liability that is expected to arise and are discounted when the time value of money is material. A contingent liability is disclosed where the existence of the obligation will only be confirmed by future events or where the amount of the obligation cannot be measured with reasonable reliability. Contingent assets are not recognized, but are disclosed where an inflow of economic benefits is probable.

Fair values
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is determined by reference to quoted market prices or by the use of established valuation techniques such as option pricing models and the discounted cash flow method if quoted prices in an active market are not available.

Financial instruments
Financial instruments are classified into the following categories:

Available-for-sale. These are non-derivative financial assets that are either designated as such or are not classified in any other financial asset category. Available-for-sale financial assets are initially recorded and subsequently carried at fair value. Changes in fair value are recorded in other comprehensive income, except for impairments, interest and foreign exchange components. When an investment is derecognized the cumulative gains and losses in equity are reclassified to other financial income (expense). Available-for-sale assets are mainly comprised of marketable securities and most of financial non-current assets.

Fair value – hedging instruments. These are derivative financial instruments that are used to manage the exposures to foreign currency risk. Derivative financial instruments are initially recorded and subsequently carried at fair value. Apart from those derivatives designated as qualifying cash flow hedging instruments, all changes in fair value are recorded as other financial income (expense).

Fair value – designated. These are non-derivative financial instruments that are designated as fair value through profit or loss on initial recognition. Designated fair value instruments are initially recorded and subsequently carried at fair value. Changes in fair value are recorded in the income statement. Designated fair value instruments mainly comprise of financial assets held for trading.

Loans and receivables. These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recorded at fair value and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses. Loans and receivables are mainly comprised of accounts receivable, cash and cash equivalents and a part of financial non-current assets.

Other financial liabilities. These are non-derivative financial liabilities. Other financial liabilities are initially recorded at fair value and subsequently carried at amortized cost using the effective interest rate method. Other financial liabilities are mainly comprised of accounts payable and debt.

Derecognition of financial instruments
A financial asset is derecognized when the contractual cash flows from the asset expire or when the Group transfers the rights to receive the contractual cash flows from the financial assets in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. A financial liability is derecognized when the contractual obligations are discharged, cancelled or expire.

Impairment of financial assets

Financial assets are individually assessed for possible impairment at each reporting date. An impairment charge is recorded where there is objective evidence of impairment, such as where the issuer is in bankruptcy, default or other significant financial difficulty. Available-for-sale equity securities that have a market value of more than 25% below their original cost, or have a market value below their original cost for a sustained six-month period will be considered as impaired.

For financial assets carried at amortized cost, any impairment charge is the difference between the carrying value and the recoverable amount, calculated using estimated future cash flows discounted using the original effective interest rate. For available-for-sale financial assets, any impairment charge is the amount currently carried in other comprehensive income for the difference between the original cost, net of any previous impairment, and the fair value.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For equity securities held as available-for-sale, the reversal is recognized directly in other comprehensive income. For debt securities measured at amortized cost or available-for-sale, the reversal is recognized in other financial income (expense).

Hedge accounting

The Group uses derivatives to manage its exposures to foreign currency risk. The instruments used may include forwards contracts and options. The Group generally limits the use of hedge accounting to certain significant transactions. To qualify for hedge accounting the hedging relationship must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. While many of these transactions can be considered as hedges in economic terms, if the required conditions are not met, then the relationship does not qualify for hedge accounting. In this case the hedging instrument and the hedged item are reported independently as if there were no hedging relationship, which means that any derivatives are reported at fair value, with changes in fair value included in other financial income (expense).

Cash flow hedge. Is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. The hedging instrument is recorded at fair value. The effective portion of the hedge is included in other comprehensive income and any ineffective portion is reported in other financial income (expense). If the hedging relationship is the hedge of the foreign currency risk of a firm commitment or highly probable forecasted transaction that results in the recognition of a non-financial item, the cumulative changes in the fair value of the hedging instrument that have been recorded in other comprehensive income are included in the initial carrying value of the non-financial item at the date of recognition. For all other cash flow hedges, the cumulative changes in the fair value of the hedging instrument that have been recorded in other comprehensive income are included in other financial income (expense) when the forecasted transaction affects net income.

Fair value hedge. Is a hedge of the exposure to changes in fair value of a recognized asset or liability, or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. The hedging instrument is recorded at fair value and the hedged item is recorded at its previous carrying value, adjusted for any changes in fair value that are attributable to the hedged risk. Changes in the fair values are reported in other financial income (expense).

Taxation

Income taxes include all taxes based upon the taxable profits of the Group. Other taxes not based on income, such as property and capital taxes, are included in the appropriate heading within the operating results.

Liabilities for income taxes, which could arise on the remittance of retained earnings, principally relating to subsidiaries, are only recognized where it is probable that such earnings will be remitted in the foreseeable future.

Deferred tax assets and liabilities are recognized on temporary differences between the tax bases of assets and liabilities and their carrying values. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized.

Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same taxation authority and when there is a legally enforceable right to offset them. Deferred taxes are determined based on the currently enacted tax rates applicable in each tax jurisdiction where the Group operates.

Own equity instruments

The Group's holdings in its own equity instruments are recorded as a deduction from equity. The original purchase cost, consideration received for subsequent resale of these equity instruments and other movements are reported as changes in equity. The exercise of stock acquisition rights granted to directors and certain employees will result in the allotment from own equity instruments.

4) Future new and revised standards

The Group is currently assessing the potential impacts of new standards and interpretations that will be effective from January 1, 2014 and beyond. Based on the analysis to date, the Group does not anticipate that these will have a material impact on the Group's overall results and financial position.

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

	IFRS	Mandatory adoption (from the year beginning)	To be adopted by the Group	Description of new and revised standards
IFRS 9	Financial Instruments	-	-	Classification, measurement and recognition of financial instruments

2. Operating segment information

The Group has a single business of pharmaceuticals and does not have multiple operating segments. The Group's pharmaceuticals business consists of the research and development of new prescription medicines and the subsequent manufacturing, marketing and distribution activities. These functional activities are integrated and managed effectively.

Information on revenues by geographical area in millions of yen

	2013		2012	
	Sales	Royalties and other operating income	Sales	Royalties and other operating income
Japan	340,241	10,512	332,942	5,040
Overseas	61,057	11,842	42,292	6,277
of which Switzerland	42,909	11,729	25,557	6,274
Total	**401,298**	**22,354**	**375,234**	**11,318**

Information by major customers in millions of yen

	2013	2012
	Sales	Sales
Alfresa Corporation	94,288	89,954
Mediceo Corporation	75,240	75,378
Suzuken Co., Ltd.	49,728	46,295
F. Hoffmann-La Roche Ltd	42,909	25,557
Toho Pharmaceutical Co., Ltd.	40,869	40,343

3. Financing costs and other financial income (expense)

Financing costs in millions of yen

	2013	2012
Interest expense	(11)	(9)
Net interest cost of defined benefit plans	66	37
Net other financing costs	(68)	(68)
Total financing costs	**(12)**	**(40)**

Other financial income (expense) in millions of yen

	2013	2012
Dividend income	148	122
Gains on sale of equity securities	-	-
Losses on sale of equity securities	-	(4)
Write-downs and impairments of equity securities	(3)	(135)
Net income from equity securities	**145**	**(18)**
Interest income	243	358
Gains on sale of debt securities	-	-
Losses on sale of debt securities	-	-
Net interest income and income from debt securities	**243**	**358**
Foreign exchange gains (losses)	(5,730)	(3,787)
Gains (losses) on foreign currency derivatives	3,560	1,502
Net foreign exchange gains (losses)	**(2,170)**	**(2,285)**
Total other financial income (expense)	**(1,782)**	**(1,945)**

4. Earnings per share

Basic earnings per share

	2013	2012
Net income attributable to Chugai shareholders (millions of yen)	**50,895**	**46,052**
Weighted average number of common stock	559,685,889	559,685,889
Weighted average number of treasury stock	(15,161,596)	(15,472,523)
Weighted average number of shares in issue	**544,524,293**	**544,213,366**
Basic earnings per share (yen)	**93.47**	**84.62**

Diluted earnings per share

	2013	2012
Net income attributable to Chugai shareholders (millions of yen)	**50,895**	**46,052**
Weighted average number of shares in issue	544,524,293	544,213,366
Adjustment for assumed exercise of equity compensation plans, where dilutive	659,346	260,206
Weighted average number of shares in issue used to calculate diluted earnings per share	**545,183,639**	**544,473,572**
Diluted earnings per share (yen)	**93.35**	**84.58**

5. Statement of cash flows

Cash flows from operating activities

Cash flows from operating activities arise from the Group's primary activities including research and development, manufacturing and sales in the Pharmaceuticals business. These are calculated by the indirect method by adjusting the Group's operating profit for any operating income and expenses that are not cash flows (for example depreciation, amortization and impairment) in order to derive the cash generated from operations. Operating cash flows also include income taxes paid on all activities.

Cash generated from operations in millions of yen

	2013	2012
Net income	51,886	46,841
Financing costs	12	40
Other financial income (expense)	1,782	1,945
Income taxes	25,058	25,837
Operating profit	**78,738**	**74,663**
Depreciation of property, plant and equipment	13,520	13,286
Amortization of intangible assets	970	886
Impairment of property, plant and equipment	1,697	267
Impairment of intangible assets	89	-
Operating expense for defined benefit plans	3,214	3,060
Operating expense for equity-settled equity compensation plans	292	242
Net (income) expense for provisions	142	5
Inventory write-downs	1,013	790
Other adjustments	1,283	(1,646)
Cash generated from operations	**100,959**	**91,553**

Cash flows from investing activities

Cash flows from investing activities are principally those arising from the Group's investments in property, plant and equipment and intangible assets. Cash flows connected with the Group's portfolio of marketable securities and other investments are also included, as are any interest and dividend payments received in respect of these securities and investments.

Interest and dividends received in millions of yen

	2013	2012
Interest received	271	319
Dividends received	148	122
Total	**419**	**441**

Cash flows from financing activities

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

Significant non-cash transactions

There were no significant non-cash transactions (2012: none).

6. Related parties

1) Controlling shareholder

Effective October 1, 2002, Roche and Chugai completed an alliance to create a leading research-driven Japanese pharmaceutical company, which was formed by the merger of Chugai and Roche's Japanese pharmaceuticals subsidiary, Nippon Roche. Through the merger, Chugai become a principal member of the Roche Group as the surviving company.

Chugai has entered into certain agreements with Roche, which are discussed below:

Basic Alliance Agreement: As part of the Basic Alliance Agreement signed in December 2001, Roche and Chugai entered into certain arrangements covering the future operation and governance of Chugai. Amongst other matters these cover the following areas:

- The structuring of the alliance.
- Roche's rights as a shareholder.
- Roche's rights to nominate members of Chugai's Board of Directors.
- Certain limitations to Roche's ability to buy or sell Chugai's common stock.

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

Licensing Agreements: Under the Japan Umbrella Rights Agreement signed in December 2001, Chugai has exclusive rights to market Roche's pharmaceutical products in Japan. Chugai also has right of first refusal on the development and marketing in Japan of all development compounds advanced by Roche.

Under the Rest of the World Umbrella Rights Agreement signed in May 2002, Roche has the right of first refusal on the development and marketing of Chugai's development compounds in markets outside Japan, excluding South Korea, if Chugai decides that it requires a partner for such activities.

Further to these agreements, Roche and Chugai have signed a series of separate agreements for certain specific products. Depending on the specific circumstances and the terms of the agreement, this may result in payments on an arm's length basis between Roche and Chugai, for any or all of the following matters:

- Upfront payments, if a right of first refusal to license a product is exercised.
- Milestone payments, dependent upon the achievement of agreed performance targets.
- Royalties on future product sales.

These specific product agreements may also cover the manufacture and supply of the respective products to meet the other party's clinical and/or commercial requirements on an arm's length basis.

Research Collaboration Agreements: Roche and Chugai have entered into research collaboration agreements in the areas of small-molecule synthetic drug research and biotechnology-based drug discovery.

Dividends: The dividends distributed to Roche by Chugai in respect to its holdings of Chugai shares totaled ¥14,079 million (2012: ¥13,409 million).

2) Material transactions and balances with related parties

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

	2013	2012
Sales	42,909	25,557
Purchases of inventory and other materials	112,799	84,272

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

	December 31, 2013	December 31, 2012	January 1, 2012 (Date of transition to IFRS)
Accounts receivable	22,245	16,136	11,704
Accounts payable	(39,417)	(38,948)	(15,595)

3) Key management personnel

The operating functions of Chugai are retained by the members of the Board of Directors who act as the chief operating decision-maker. The term of office for directors expires at the conclusion of the annual general meeting of shareholders held with respect to the last business year ending within two years after election. The term of office for audit & supervisory board members expires at the conclusion of the annual general meeting of shareholders held with respect to the last business year ending within four years after election.

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

	2013	2012
Board of directors		
- Regular remuneration	335	354
- Bonuses	186	199
- Chugai common stock options	78	56
- Chugai stock options as stock-based compensation	119	112
Total	**718**	**722**
Audit & supervisory board members		
- Regular remuneration	85	85
Total	**85**	**85**

7. Subsequent events

There were no material subsequent events (2012: none).

8. Transition to International Financial Reporting Standards

The financial statements are the first annual consolidated financial statements for the Group prepared in accordance with IFRS. The date of transition to IFRS is January 1, 2012. Previously, the Group prepared its financial statements in conformity with JGAAP. The last consolidated financial statements under JGAAP were for the year ended December 31, 2012.

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

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

Reconciliation of equity in millions of yen

		December 31, 2012	January 1, 2012 (Date of transition to IFRS)
	Total net assets in previously published JGAAP financial statements	**490,075**	**459,073**
(a)	Property, plant and equipment	60,784	60,420
(b)	Intangible assets	4,865	4,714
(c)	Post-employment benefits	4,652	2,608
(d)	Long-term prepaid expense	2,060	2,534
(e)	Inventories	(481)	(2,149)
(f)	Deferred income	(7,521)	(3,027)
(g)	Accrued vacation	(2,946)	(2,995)
	Other differences	(179)	(217)
(h)	Deferred tax assets and liabilities	(22,148)	(21,972)
	Total adjustments to total net assets	**39,086**	**39,916**
	Equity in these IFRS financial statements	**529,161**	**498,989**

Reconciliation of net income in millions of yen

		2012
	Income before minority interests in previously published JGAAP financial statements	**48,992**
(a)	Property, plant and equipment	1,060
(b)	Intangible assets	369
(c)	Post-employment benefits	208
(d)	Long-term prepaid expense	(474)
(e)	Inventories	1,393
(f)	Deferred income	(4,640)
(g)	Accrued vacation	49
	Other differences	(610)
(h)	Deferred tax assets and liabilities	494
	Total adjustments to net income	**(2,151)**
	Net income in these IFRS consolidated financial statements	**46,841**

Reconciliation of comprehensive income in millions of yen

		2012
	Comprehensive income in previously published JGAAP consolidated financial statements	**53,318**
	Total adjustments to net income (from previous table)	(2,151)
(c)	Post-employment benefits	1,275
	Other differences	46
	Total adjustments to comprehensive income	**(830)**
	Comprehensive income in these IFRS consolidated financial statements	**52,488**

Notes to the reconciliations

(a) Under IFRS, the straight-line method is applied to depreciation of property, plant and equipment excluding leased assets, whereas the declining-balance method is used in JGAAP. The period of useful lives is different as well. Start-up and validation costs are expensed as incurred under JGAAP, whereas they are included in the acquisition cost of machinery and equipment under IFRS.

(b) In-licensing agreement payments are recognized as intangible assets under IFRS, while they are expensed under JGAAP.

(c) Some of the calculations for defined benefit assets and liabilities are different, such as the allocation method and discount rate. Actuarial gain and loss are amortized by the declining-balance method over the period of average remaining service years of employees at the time of occurrence from the following year of occurrence under JGAAP. Under IFRS, actuarial gain and loss are recognized as incurred in other comprehensive income in the consolidated statement of comprehensive income.

(d) Start-up and validation costs at outsourced plants are expensed as incurred under JGAAP, whereas they are treated as long-term prepaid expenses under IFRS.

(e) The difference in production costs caused by the difference in depreciation and other costs.

(f) Up-front income from out-licensing agreements is recognized as one-time income under JGAAP, whereas it is treated as deferred income under IFRS.

(g) Unused paid annual leave is not recognized under JGAAP, but it is accrued under IFRS.

(h) The matters described above in (a)–(g) result in change in temporary differences. In addition, there is a difference in the tax rate used for the calculation of the tax effect to eliminate unrealized gains.

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

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