FASF MEMBERSHIP

CHUGAI PHARMACEUTICAL CO., LTD.

A member of the Roche group

CONSOLIDATED FINANCIAL STATEMENTS (IFRS) (Non-Audited)

(for the fiscal year 2014)

Name of Company: Chugai Pharmaceutical Co., Ltd. January 28, 2015
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 26, 2015
Date of Submission of Marketable Securities Filings: March 26, 2015
Date on which Dividend Payments to Commence: March 27, 2015
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 2014 (January 1, 2014–December 31, 2014)

(1) Consolidated results

	Revenues	% change	Operating profit	% change	Profit before taxes	% change
FY ended Dec. 2014	¥461,109 million	8.8	¥75,859 million	(3.7)	¥76,164 million	(1.0)
FY ended Dec. 2013	¥423,652 million	9.6	¥78,738 million	5.5	¥76,944 million	5.9

	Net income	% change	Net income attributable to Chugai shareholders	% change	Total comprehensive income	% change
FY ended Dec. 2014	¥52,077 million	0.4	¥50,980 million	0.2	¥48,485 million	(27.4)
FY ended Dec. 2013	¥51,886 million	10.8	¥50,895 million	10.5	¥66,793 million	27.3

	Net income per share (Basic)	Net income per share (Diluted)
FY ended Dec. 2014	¥93.53	¥93.38
FY ended Dec. 2013	¥93.47	¥93.35

	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. 2014	8.7%	10.6%	16.5%
FY ended Dec. 2013	9.3%	11.5%	18.6%

Notes: 1. Equity-method earnings for the year ended December 31, 2014: ¥— million, December 31, 2013: ¥— 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, 2014	¥739,538 million	¥597,756 million	¥596,099 million	80.6%	¥1,092.90
As of Dec. 31, 2013	¥697,212 million	¥573,204 million	¥571,692 million	82.0%	¥1,049.47

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. 2014	¥37,034 million	¥(14,351) million	¥(24,388) million	¥114,037 million
FY ended Dec. 2013	¥53,521 million	¥(13,213) million	¥(23,169) million	¥115,070 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. 2013	—	¥22.00	—	¥23.00	¥45.00
FY ended Dec. 2014	—	¥22.00	—	¥26.00	¥48.00
FY ending Dec. 2015 (Forecast)	—	¥26.00	—	¥26.00	¥52.00

	Total dividends (annual)	Dividend payout ratio (consolidated)	Ratio of dividends to equity attributable to Chugai shareholders (consolidated)
FY ended Dec. 2013	¥24,510 million	48.1%	4.5%
FY ended Dec. 2014	¥26,173 million	51.3%	4.5%
FY ending Dec. 2015 (Forecast)		—	

3. Consolidated forecasts for the FY 2015 (January 1, 2015–December 31, 2015)

	Revenues	% change	Core operating profit	% change	Core earnings per share		Core dividend payout ratio %
FY ending Dec. 2015 (Forecast)	¥486,500 million	5.5	¥85,000 million	10.0	¥104.42	9.9	49.8
FY ended Dec. 2014 (Results)	¥461,109 million	8.8	¥77,321 million	(3.2)	¥95.04	0.4	50.5

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. Core EPS is net income per share attributable to Chugai shareholders on a core basis after full dilution for latent shares.

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, 2014	559,685,889	As of Dec. 31, 2013	559,685,889
(b) Number of treasury stock at the end of the period	As of Dec. 31, 2014	14,258,437	As of Dec. 31, 2013	14,944,320
(c) Average number of shares issued during the period (twelve months)	FY ended Dec. 31, 2014	545,055,187	FY ended Dec. 31, 2013	544,524,293

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 23 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) 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.
(2) The forecast which is published for shareholders and investors is based on the internal management indicator Core basis. The difference between International Financial Reporting Standards ("IFRS") results and Core results will be explained at each event and presentation.
(3) 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 8, and "Management Principles and Goals" on pages 12-13 of the attached document.
(4) Chugai Pharmaceutical Co., Ltd. ("Chugai") is scheduled to hold a presentation of the financial statements as noted below. The materials, video, Q&A, and other related documents for the presentation for institutional investors and securities analysts will be posted on the Company's website immediately following the conclusion of the presentation.
Presentation for the media (Japanese only): January 28, 2015, Wednesday (Japan time).
Presentation for institutional investors and securities analysts (Japanese only): January 29, 2015, Thursday (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		
	2014	2013	% change
Core results			
Revenues	**461.1**	**423.7**	**+8.8**
Sales (excluding Tamiflu)	423.8	390.2	+8.6
Tamiflu sales	13.0	11.0	+18.2
Royalties and other operating income	24.2	22.4	+8.0
Cost of sales	(217.0)	(186.1)	+16.6
Gross profit	**244.2**	**237.6**	**+2.8**
Marketing and distribution	(71.7)	(71.5)	+0.3
Research and development	(80.6)	(74.1)	+8.8
General and administration	(14.6)	(12.1)	+20.7
Operating profit	**77.3**	**79.9**	**(3.3)**
Net income	**53.0**	**52.6**	**+0.8**
IFRS results			
Revenues	461.1	423.7	+8.8
Operating profit	75.9	78.7	(3.6)
Net income	52.1	51.9	+0.4

Consolidated financial highlights (IFRS results)

Revenues for the fiscal year under review were ¥461.1 billion (an increase of 8.8% year on year), operating profit for the fiscal year under review was ¥75.9 billion (a decrease of 3.6% year on year), and net income for the fiscal year under review was ¥52.1 billion (an increase of 0.4% year on year). These results include non-Core items, such as amortization of intangible assets of ¥1.2 billion, impairment of intangible assets of ¥0.2 billion, restructuring costs of ¥0.1 billion, and other items, which are excluded in the Core results managed by Chugai.

Consolidated financial highlights (Core results)

Revenues for the fiscal year under review were ¥461.1 billion (an increase of 8.8% year on year) due to the strong growth in sales and increase in royalties and other operating income.

Of revenues, sales excluding Tamiflu were ¥423.8 billion (an increase of 8.6% year on year). Royalties and other operating income also increased year on year to reach ¥24.2 billion (an increase of 8.0% year on year), due to an increase in royalties and profit sharing income related to an increase in overseas sales of Actemra (a humanized anti-IL-6 receptor monoclonal antibody) by the Roche Group (“Roche”).

Cost of sales were ¥217.0 billion (an increase of 16.6% year on year), mainly resulting from the impact of the significant depreciation of the yen, and gross profit amounted to ¥244.2 billion (an increase of 2.8% year on year).

Marketing and distribution expenses were ¥71.7 billion (an increase of 0.3% year on year), while research and development expenses were ¥80.6 billion (an increase of 8.8% year on year), due mainly to the depreciation of the yen as well as the progress in development projects originating from Chugai and increased research activities at Chugai Pharmabody Research Pte. Ltd. in Singapore. General and administration expenses were ¥14.6 billion (an increase of 20.7% year on year) due to the increase in expenditures associated with the renewal of buildings and PR activities for the purpose of enhancing corporate brand recognition.

As a result, Core operating profit was ¥77.3 billion (a decrease of 3.3% year on year). Meanwhile, Core net income was ¥53.0 billion (an increase of 0.8% year on year), due to the major improvements from fiscal year 2013 in other financial income (expense) and an increase in profits due to the reduction of the tax rate for fiscal year 2014 as a result of the changes in the taxation system.

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 status of recurring profits both internally and externally, and as the basis for payment-by-results.
For further details regarding the adjustment to IFRS results, please refer to the Supplementary Materials on page 5, entitled “Reconciliation of IFRS results to Core results”.

Sales by product domain in billions of yen

	Year ended December 31		
	2014	2013	% change
Sales	**436.9**	**401.3**	**+8.9**
Domestic sales (excluding Tamiflu)	**349.5**	**329.2**	**+6.2**
Oncology	188.9	172.4	+9.6
Bone and joint diseases	69.6	60.6	+14.9
Renal diseases	44.7	48.9	(8.6)
Transplant, immunology, and infectious diseases	20.8	18.8	+10.6
Others	25.6	28.6	(10.5)
Tamiflu sales	**13.0**	**11.0**	**+18.2**
Ordinary use	12.9	10.1	+27.7
Government stockpiles	0.2	0.9	(77.8)
Overseas sales	**74.3**	**61.1**	**+21.6**

Domestic sales (excluding Tamiflu)
Domestic sales excluding Tamiflu were ¥349.5 billion (an increase of 6.2% year on year), driven by steady growth of new products and major products, offsetting the impact of the NHI drug price revisions in April.

Oncology products sales were ¥188.9 billion (an increase of 9.6% 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, there was a contribution by two new products both for the indication of HER2-positive breast cancer, which are Perjeta (an anti-HER2 humanized monoclonal antibody, anti-cancer agent) launched in September 2013 and Kadcyla (an anti-HER2 antibody - tubulin polymerization inhibitor conjugate) launched in April 2014. Sales of Alecensa (an ALK inhibitor, anti-cancer agent) launched in September 2014 were ¥1.4 billion.

Bone and joint diseases products sales increased substantially to ¥69.6 billion (an increase of 14.9% year on year). This increase was led by the strong sales of Edirol, a top brand in the domestic market of oral therapeutic agents for osteoporosis, Actemra, whose subcutaneous injection formulation was launched in May 2013 and for which the restriction in prescribing period of two-weeks was lifted in June 2014, and Bonviva, launched in August 2013 for the indication of osteoporosis.

Renal diseases product sales amounted to ¥44.7 billion (a decrease of 8.6% year on year), due to a substantial decline in sales of Epogin (a recombinant human erythropoietin agent) resulting from factors such as the effects of the NHI drug price revisions.

In the area of transplant, immunology, and infectious diseases products (excluding Tamiflu), sales were ¥20.8 billion (an increase of 10.6% year on year). This increase was due to higher sales of Pegasys (a peginterferon-α-2a agent) and Copegus (an anti-viral agent), which are concurrently used with a newly launched 3rd party product.

Tamiflu sales
Sales of Tamiflu (an anti-influenza agent) for ordinary use were ¥12.9 billion (an increase of 27.7% year on year), while sales to government stockpiles etc. were ¥0.2 billion (a decrease of 77.8% year on year).

Overseas sales
Overseas sales were ¥74.3 billion (an increase of 21.6% year on year), due to the depreciation of the yen and an increase of Actemra exports to Roche in volume, whose subcutaneous injection formulation was launched in Europe and the United States.

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 ¥80.6 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, ¥119/USD, and ¥91/SGD. Chugai has also assumed that the magnitude of the influenza epidemic will be about the same as the average since 2007, excluding the epidemic of the novel influenza in the 2009/2010 season.

Outlook for the fiscal year

Revenues

Our outlook for sales of Tamiflu is ¥7.4billion (a decrease of 42.6% year on year), with no orders for government stockpiles.

Domestic sales, excluding Tamiflu, are forecast to rise steadily to ¥360.9 billion (an increase of 3.3% year on year). Sales of Avastin, Tarceva 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 Kadcyla, Alecensa, 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 ¥74.7 billion (an increase of 35.6% year on year), reflecting the continued growth in sales of Actemra overseas. On the other hand, overseas sales of other products are forecast to decrease to ¥17.8 billion (a decrease of 7.8% year on year) as a decline in sales of Neutrogin owing to competition from follow-on biologics.

Royalties and other operating income is forecast to rise to ¥25.6 billion (an increase of 5.8% year on year) because of increases in revenues from Roche for co-promotion and royalties of Actemra.

Core Operating Profit / Core EPS

As regards profits, gross profit is expected to rise to ¥256.3 billion (an increase of 5.0% year on year) due to an increase in the revenues. Although budgeted costs have been increased, as in the previous year, to reflect higher costs arising from progress in development themes originating in Chugai and increased activities at Chugai Pharmabody Research Pte. Ltd., Core operating profit is forecast to be ¥85.0 billion (an increase of 10.0% year on year) as the increase of gross profit is expected to exceed the increase of budgeted costs. Core EPS will be ¥104.42 (an increase of 9.9% year on year).

(Billions of yen)

	Outlook for the year ending Dec. 2015	% Change
Revenues	486.5	+5.5
Sales excluding Tamiflu	453.4	+7.0
Core operating profit	85.0	+10.0

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.

Note: Figures mentioned in (1) are rounded to the nearest ¥0.1 billion, 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, 2014	December 31, 2013	% change
Movements of assets and liabilities			
Net working capital	209.4	177.1	+18.2
Long-term net operating assets	148.4	148.1	+0.2
Net operating assets (NOA)	**357.7**	**325.2**	**+10.0**
Net cash	229.9	234.4	(1.9)
Other non-operating assets - net	10.2	13.6	(25.0)
Total net assets	**597.8**	**573.2**	**+4.3**
Consolidated balance sheet (IFRS basis)			
Total assets	739.5	697.2	+6.1
Total liabilities	(141.8)	(124.0)	+14.4
Total net assets	597.8	573.2	+4.3

Net working capital at December 31, 2014 was ¥209.4 billion (an increase of ¥32.3 billion since December 31, 2013). This was mainly due to an increase in accounts receivable-trade due to differences in the timing of collection, an increase in inventories accompanying expansion in the scale of new and major products, an increase in safety stock levels to ensure stable supply, and other factors. Long-term net operating assets remained mostly the same from the end of the previous fiscal year at ¥148.4 billion. As a result, net operating assets (NOA) were ¥357.7 billion, ¥32.5 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, decreased by ¥4.5 billion since December 31, 2013 to ¥229.9 billion. Also, other non-operating assets - net decreased by ¥3.4 billion since the end of the previous fiscal year to ¥10.2 billion mainly due to a decrease in foreign exchange contracts assets and an increase in current income tax liabilities, offsetting an increase in deferred tax assets.

As a consequence, total net assets were ¥597.8 billion (an increase of ¥24.6 billion since December 31, 2013).

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		
	2014	2013	% change
Movements of free cash flows			
Operating profit - IFRS basis	75.9	78.7	(3.6)
Operating profit, net of operating cash adjustments	96.4	97.3	(0.9)
Operating free cash flows	43.9	63.0	(30.3)
Free cash flows	(6.5)	15.0	—
Net change in net cash	(4.5)	22.7	—
Consolidated statement of cash flows (IFRS basis)			
Cash flows from operating activities	37.0	53.5	(30.8)
Cash flows from investing activities	(14.4)	(13.2)	+9.1
Cash flows from financing activities	(24.4)	(23.2)	+5.2
Net change in cash and cash equivalents	(1.0)	19.6	—
Cash and cash equivalents at December 31	114.0	115.1	(1.0)

Operating profit, net of operating cash adjustments, 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, which amounted to ¥96.4 billion. The principal items influencing this result were a total of ¥15.5 billion in depreciation and impairment of property, plant and equipment.

Operating free cash flows, which are calculated by deducting an increase in net working capital of ¥33.3 billion and subtracting expenditures of ¥19.2 billion for the purchase of property, plant and equipment and intangible assets from operating profit, net of operating cash adjustments, amounted to a net inflow of ¥43.9 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 buildings and equipment of the laboratories and plants.

Free cash flows were a net cash outflow of ¥6.5 billion. This is calculated by subtracting a total of ¥50.4 billion of non-operating cash outflows from financial asset management, income taxes paid, and dividends paid from operating free cash flows.

As a result, the net change in net cash, after foreign currency translation adjustments, decreased ¥4.5 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 outflow on an IFRS basis of ¥1.0 billion. The cash and cash equivalents balance at the end of this period amounted to ¥114.0 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”. 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		
	2014	2013	2012
Ratio of equity attributable to Chugai shareholders (%)	80.6	82.0	81.8
Ratio of equity attributable to Chugai shareholders on a market basis (%)	218.6	181.7	139.2
Interest-bearing debt to cash flows ratio (%)	0.6	0.4	0.3
Interest-coverage ratio (times)	6,547.7	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 into account the strategic funding needs and earnings prospects, Chugai aims for a consolidated dividend payout ratio of 50% on average in comparison with Core EPS to provide a stable allocation of profit to all shareholders. In addition, internal reserves will be used to increase corporate value through investments to attain further growth in existing strategic domains and to identify future business opportunities.

Based on the dividends policy of Chugai, year-end regular dividends for the fiscal year ended December 31, 2014, are planned to be ¥26 per share which is higher by ¥3 than forecasted. As a result, total dividends for the year will be ¥48 per share, and the Core dividend payout ratio is 50.5% (an average of 50.8% for the past five years).

For the following fiscal year, ending December 31, 2015, Chugai expects total estimated dividends of ¥52 per share (¥4 higher than fiscal year 2014), including interim dividend payments of ¥26 per share which is also based on the dividends policy of Chugai. Accordingly, the forecast for the Core dividend payout ratio is 49.8% (an average of 50.3% for the past five years) in 2015.

(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 it has granted Roche the right of first refusal with respect to Chugai's products in global markets outside Japan, excluding South Korea and Taiwan. Consequently, the Group 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) IT security and information control

As the Group makes full use of a wide range of IT systems in its business activities, it is subject to the risk of its operations being disrupted due to system malfunctions, computer viruses and other external factors. Additionally, the Group’s business performance and financial position may be significantly affected in the event of an accident or other incidents resulting in the leakage of confidential information.

9) 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.

10) Litigation

There is a possibility that litigation may be brought against the Group over side effects of pharmaceuticals, product liability, labor issues, fair trade and other issues associated with its business activities, which could have a major impact on the Group’s business performance and financial position.

11) Environmental issues

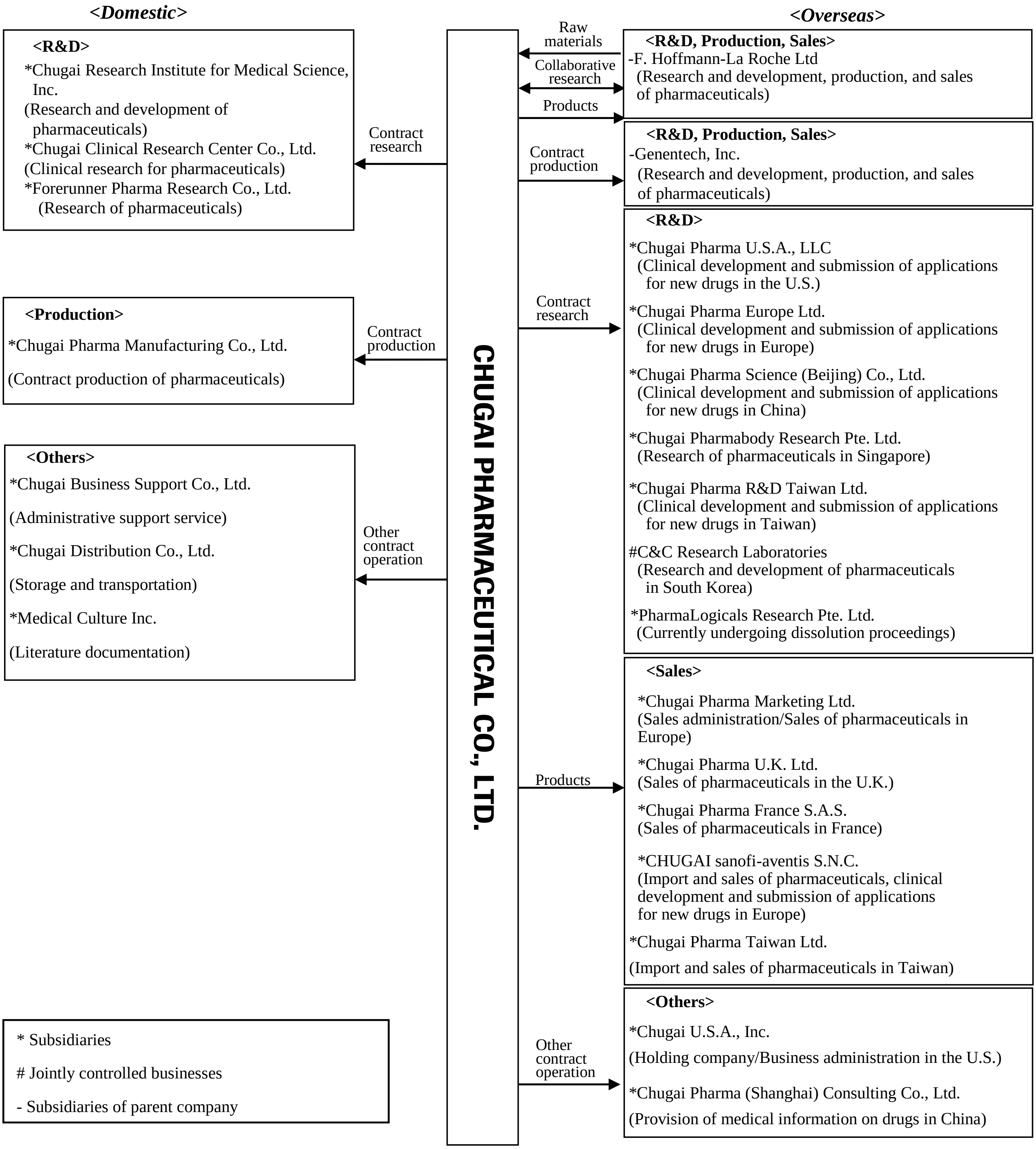
In terms of environmental issues, the Group, in addition to compliance with relevant laws and regulations, has established a set of even higher voluntary standards and has been making efforts to achieve them. In the course of the Group’s business activities, violations of relevant laws and regulations may occur as a result of accidents or other incidents, which may result in incurring related expenses. 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, 21 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, 2014)



- There is no subsidiary listed on a stock exchange.
- Chugai Pharma China Co., Ltd. has not been included in the Outline of the Chugai Group as it was established in June 2014 and is currently (as of December 31, 2014) in the process of preparing for the commencement of business.
- 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, 2014.

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 its business philosophy under the slogan of “INNOVATION BEYOND IMAGINATION”. 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. Basic Approach to the Selection of Accounting Standards

The Group has applied International Financial Reporting Standards (IFRS) from the first quarter of the fiscal year ended December 31, 2013.

5. 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	
	2014	2013
Revenues	**461,109**	**423,652**
Sales	436,883	401,298
Royalties and other operating income	24,226	22,354
Cost of sales	(218,076)	(186,977)
Gross profit	**243,033**	**236,675**
Marketing and distribution	(71,742)	(71,588)
Research and development	(80,800)	(74,280)
General and administration	(14,632)	(12,069)
Operating profit	**75,859**	**78,738**
Financing costs	(11)	(12)
Other financial income (expense)	315	(1,782)
Profit before taxes	**76,164**	**76,944**
Income taxes	(24,087)	(25,058)
Net income	**52,077**	**51,886**
Attributable to:		
Chugai shareholders	50,980	50,895
Non-controlling interests	1,097	991
Earnings per share		
Basic (yen)	93.53	93.47
Diluted (yen)	93.38	93.35

2) Consolidated statement of comprehensive income in millions of yen

	Year ended December 31	
	2014	2013
Net income recognized in income statement	**52,077**	**51,886**
Other comprehensive income		
Remeasurements of defined benefit plans	(1,452)	964
Items that will not be reclassified to the income statement	**(1,452)**	**964**
Available-for-sale investments	1,050	1,834
Cash flow hedges	(4,052)	4,090
Currency translation of foreign operations	862	8,019
Items that may be reclassified subsequently to the income statement	**(2,140)**	**13,942**
Other comprehensive income, net of tax	**(3,592)**	**14,907**
Total comprehensive income	**48,485**	**66,793**
Attributable to:		
Chugai shareholders	47,379	65,497
Non-controlling interests	1,107	1,296

(2) Consolidated balance sheet in millions of yen

	December 31, 2014	December 31, 2013
Assets		
Non-current assets:		
Property, plant and equipment	140,245	140,445
Intangible assets	11,286	9,514
Financial non-current assets	10,755	9,066
Deferred tax assets	25,673	19,244
Defined benefit plan assets	1,946	3,862
Other non-current assets	10,728	10,846
Total non-current assets	**200,635**	**192,977**
Current assets:		
Inventories	139,571	128,536
Accounts receivable	159,773	128,182
Current income tax assets	114	205
Marketable securities	116,030	119,573
Cash and cash equivalents	114,037	115,070
Other current assets	9,379	12,669
Total current assets	**538,904**	**504,235**
Total assets	**739,538**	**697,212**
Liabilities		
Non-current liabilities:		
Long-term debt	(185)	(195)
Deferred tax liabilities	(10,722)	(12,211)
Defined benefit plan liabilities	(2,616)	(1,269)
Long-term provisions	(2,110)	(2,082)
Other non-current liabilities	(11,799)	(10,584)
Total non-current liabilities	**(27,432)**	**(26,341)**
Current liabilities:		
Short-term debt	(29)	(38)
Current income tax liabilities	(16,619)	(12,673)
Short-term provisions	(987)	(105)
Accounts payable	(62,694)	(59,544)
Other current liabilities	(34,021)	(25,307)
Total current liabilities	**(114,350)**	**(97,667)**
Total liabilities	**(141,782)**	**(124,008)**
Total net assets	**597,756**	**573,204**
Equity:		
Capital and reserves attributable to Chugai shareholders	596,099	571,692
Equity attributable to non-controlling interests	1,657	1,512
Total equity	**597,756**	**573,204**

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

	Year ended December 31	
	2014	2013
Cash flows from operating activities		
Cash generated from operations	99,050	100,959
(Increase) decrease in working capital	(33,302)	(19,660)
Payments made for defined benefit plans	(2,254)	(2,327)
Utilization of provisions	(122)	(163)
Other operating cash flows	(1,115)	(1,461)
Cash flows from operating activities, before income taxes paid	**62,256**	**77,348**
Income taxes paid	(25,222)	(23,827)
Total cash flows from operating activities	**37,034**	**53,521**
Cash flows from investing activities		
Purchase of property, plant and equipment	(16,232)	(11,287)
Purchase of intangible assets	(2,935)	(3,377)
Disposal of property, plant and equipment	794	(300)
Interest and dividends received	490	419
Purchases of marketable securities	(228,292)	(240,860)
Sales of marketable securities	231,873	242,198
Other investing cash flows	(49)	(6)
Total cash flows from investing activities	**(14,351)**	**(13,213)**
Cash flows from financing activities		
Interest paid	(6)	(11)
Dividends paid to Chugai shareholders	(24,520)	(22,874)
Dividends paid to non-controlling shareholders	(962)	(983)
Exercise of equity compensation plans	1,226	820
(Increase) decrease in own equity instruments	(19)	(12)
Other financing cash flows	(109)	(109)
Total cash flows from financing activities	**(24,388)**	**(23,169)**
Net effect of currency translation on cash and cash equivalents	673	2,486
Increase (decrease) in cash and cash equivalents	**(1,032)**	**19,625**
Cash and cash equivalents at January 1	115,070	95,445
Cash and cash equivalents at December 31	**114,037**	**115,070**

(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, 2013							
At January 1, 2013	**72,967**	**64,668**	**397,221**	**(6,895)**	**527,961**	**1,200**	**529,161**
Net income	-	-	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
At December 31, 2013	**72,967**	**65,768**	**426,213**	**6,744**	**571,692**	**1,512**	**573,204**
Year ended December 31, 2014							
At January 1, 2014	**72,967**	**65,768**	**426,213**	**6,744**	**571,692**	**1,512**	**573,204**
Net income	-	-	50,980	-	50,980	1,097	52,077
Available-for-sale investments	-	-	-	1,050	1,050	-	1,050
Cash flow hedges	-	-	-	(4,052)	(4,052)	-	(4,052)
Currency translation of foreign operations	-	-	-	851	851	10	862
Remeasurements of defined benefit plans	-	-	(1,451)	-	(1,451)	(1)	(1,452)
Total comprehensive income	**-**	**-**	**49,529**	**(2,150)**	**47,379**	**1,107**	**48,485**
Dividends	-	-	(24,521)	-	(24,521)	(962)	(25,483)
Equity compensation plans	-	(73)	-	-	(73)	-	(73)
Own equity instruments	-	1,623	-	-	1,623	-	1,623
At December 31, 2014	**72,967**	**67,317**	**451,220**	**4,594**	**596,099**	**1,657**	**597,756**

(5) Notes regarding the going concern assumption

None

(6) Notes to the consolidated financial statements

1. General accounting principles and significant accounting policies

(a) Basis of preparation of the consolidated financial statements

These financial statements are the annual consolidated financial statements of Chugai, a company registered in Japan, and its subsidiaries. The common stock of Chugai is publicly traded and listed on the Tokyo Stock Exchange under the stock code “TSE: 4519”. The consolidated financial statements were approved by the Board of Directors on January 28, 2015.

Roche Holding Ltd. is a public company registered in Switzerland and the parent company of the Roche Group, which discloses its results in accordance with International Financial Reporting Standards (“IFRS”). The shareholding percentage of Roche Holding Ltd. in Chugai is 59.89% (61.46% of the total number of shares issued excluding treasury stock). 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 presented in Japanese yen, which is Chugai’s functional currency and amounts are rounded to the nearest ¥1 million. They have been prepared using the historical cost convention except for items that are required to be accounted for at fair value.

(b) Changes in accounting policies

The accounting policies applied by the Group for its consolidated financial statements for the fiscal year under review are the same as for the previous fiscal year except for the following.

IFRS		Description of new and revised standards
IFRS 10	Consolidated Financial Statements	
IFRS 12	Disclosure of Interests in Other Entities	Accounting for investments held by investment entities
IAS 27	Separate Financial Statements	
IAS 32	Financial Instruments: Presentation	Offsetting of financial instruments and financial liabilities
IAS 36	Impairment of Assets	Recoverable amount disclosures for non-financial assets
IAS 39	Financial Instruments: Recognition and Measurement	Revision of accounting for derivative contract renewals
IFRIC 21	Levies	Clarification of accounting for levies

The above standards do not materially impact the Group’s performance or financial status.

(c) 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, 2015 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 15	Revenue from Contracts with Customers	January 1, 2017	To be determined	Revision of accounting relating to revenue recognition
IFRS 9	Financial Instruments	January 1, 2018	To be determined	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

	2014		2013	
	Sales	Royalties and other operating income	Sales	Royalties and other operating income
Japan	362,574	10,300	340,241	10,512
Overseas	74,309	13,926	61,057	11,842
of which Switzerland	55,051	13,884	42,909	11,729
Total	**436,883**	**24,226**	**401,298**	**22,354**

Information by major customers in millions of yen

	2014		2013	
	Revenues	Percentage (%)	Revenues	Percentage (%)
Alfresa Corporation	94,483	20.5	94,288	22.3
Mediceo Corporation	72,767	15.8	75,240	17.8
F. Hoffmann-La Roche Ltd	68,784	14.9	54,638	12.9
Suzuken Co., Ltd.	47,658	10.3	49,728	11.7

3. Financing costs and other financial income (expense)

Financing costs in millions of yen

	2014	2013
Interest expense	(6)	(11)
Net interest cost of defined benefit plans	63	66
Net other financing costs	(68)	(68)
Total financing costs	**(11)**	**(12)**

Other financial income (expense) in millions of yen

	2014	2013
Dividend income	287	148
Gains on sale of equity securities	-	-
Losses on sale of equity securities	-	-
Write-downs and impairments of equity securities	(0)	(3)
Net income from equity securities	**287**	**145**
Interest income	205	243
Gains on sale of debt securities	-	-
Losses on sale of debt securities	-	-
Net interest income and income from debt securities	**205**	**243**
Foreign exchange gains (losses)	(672)	(5,730)
Gains (losses) on foreign currency derivatives	495	3,560
Net foreign exchange gains (losses)	**(177)**	**(2,170)**
Total other financial income (expense)	**315**	**(1,782)**

4. Earnings per share

Basic earnings per share

	2014	2013
Net income attributable to Chugai shareholders (millions of yen)	**50,980**	**50,895**
Weighted average number of common stock	559,685,889	559,685,889
Weighted average number of treasury stock	(14,630,702)	(15,161,596)
Weighted average number of shares in issue	**545,055,187**	**544,524,293**
Basic earnings per share (yen)	**93.53**	**93.47**

Diluted earnings per share

	2014	2013
Net income attributable to Chugai shareholders (millions of yen)	**50,980**	**50,895**
Weighted average number of shares in issue	545,055,187	544,524,293
Adjustment for assumed exercise of equity compensation plans, where dilutive	892,848	659,346
Weighted average number of shares in issue used to calculate diluted earnings per share	**545,948,035**	**545,183,639**
Diluted earnings per share (yen)	**93.38**	**93.35**

As of December 31, 2014, 5,941 stock options (9,897 stock options as of December 31, 2013) were eliminated from the weighted average number of shares in issue used to calculate diluted earnings per share since they do not have dilutive effects.

5. Statement of cash flows

Cash flows from operating activities

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

Cash generated from operations in millions of yen

	2014	2013
Net income	52,077	51,886
Financing costs	11	12
Other financial income (expense)	(315)	1,782
Income taxes	24,087	25,058
Operating profit	**75,859**	**78,738**
Depreciation of property, plant and equipment	13,688	13,520
Amortization of intangible assets	1,192	970
Impairment of property, plant and equipment	1,775	1,697
Impairment of intangible assets	171	89
Operating expense for defined benefit plans	3,316	3,214
Operating expense for equity-settled equity compensation plans	342	292
Net (income) expense for provisions	99	142
Inventory write-downs	1,182	1,013
Other adjustments	1,426	1,283
Cash generated from operations	**99,050**	**100,959**

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

	2014	2013
Interest received	203	271
Dividends received	287	148
Total	**490**	**419**

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 (2013: none).

6. Related parties

(a) 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.

The Rest of the World Umbrella Rights Agreement (excluding Japan and South Korea) signed in May 2002 was revised and the Amended and Restated Rest of the World Umbrella Rights Agreement (excluding Japan, South Korea and Taiwan) was signed in August 2014. Under this Agreement, Roche has the right of first refusal on the development and marketing of Chugai’s development compounds in markets outside Japan, excluding South Korea and Taiwan.

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

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

These specific product agreements may also cover the manufacture 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 ¥15,085 million (2013: ¥14,079 million).

(b) Material transactions and balances with related parties

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

	2014	2013
Sales	55,051	42,909
Purchases of inventory and other materials	122,189	112,799

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

	December 31, 2014	December 31, 2013
Accounts receivable	28,201	22,245
Accounts payable	(37,447)	(39,417)

(c) 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

	2014	2013
Board of directors		
- Regular remuneration	349	335
- Bonuses	220	186
- Chugai common stock options	104	78
- Chugai stock options as stock-based compensation	117	119
Total	**790**	**718**
Audit & supervisory board members		
- Regular remuneration	85	85
Total	**85**	**85**

7. Subsequent events

There were no material subsequent events (2013: none).