



CHUGAI PHARMACEUTICAL CO., LTD.

A member of the Roche group

CONSOLIDATED FINANCIAL STATEMENTS (IFRS) (Non-Audited)
(for the third quarter of fiscal year 2015)

Name of Company: Chugai Pharmaceutical Co., Ltd. October 22, 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
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 Date of Submission of Quarterly Marketable Securities Filings: October 30, 2015
 Date on which Dividend Payments to Commence: —
 Supplementary Materials Prepared for the Quarterly Financial Statements: Yes
 Presentation Held to Explain the Quarterly Financial Statements: Yes (for institutional investors and securities analysts)

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

I. Consolidated results for the third quarter of FY 2015 (January 1, 2015–September 30, 2015)

(1) Consolidated results

	Revenues	% change	Operating profit	% change	Profit before taxes	% change
First nine months of FY 2015	¥367,772 million	10.3	¥67,059 million	13.4	¥67,390 million	13.4
First nine months of FY 2014	¥333,426 million	8.8	¥59,134 million	1.7	¥59,420 million	4.8

	Net income	% change	Net income attributable to Chugai shareholders	% change	Total comprehensive income	% change
First nine months of FY 2015	¥48,584 million	19.7	¥47,647 million	19.9	¥45,480 million	30.5
First nine months of FY 2014	¥40,575 million	4.1	¥39,730 million	4.1	¥34,857 million	(23.8)

	Net income per share (Basic)	Net income per share (Diluted)
First nine months of FY 2015	¥87.31	¥87.15
First nine months of FY 2014	¥72.90	¥72.79

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

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

(2) Consolidated results (balance sheet)

	Total assets	Total equity	Equity attributable to Chugai shareholders	Ratio of equity attributable to Chugai shareholders
As of Sep. 30, 2015	¥753,492 million	¥615,068 million	¥613,918 million	81.5%
As of Dec. 31, 2014	¥739,538 million	¥597,756 million	¥596,099 million	80.6%

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

2. Dividends

	Annual dividends per share				
	End of first quarter	End of second quarter	End of third quarter	End of fiscal year	Total
FY ended Dec. 2014	—	¥22.00	—	¥26.00	¥48.00
FY ending Dec. 2015	—	¥26.00	—		
FY ending Dec. 2015 (Forecast)				¥26.00	¥52.00

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

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 %
First nine months of FY 2015 (Results)	¥367,772 million	75.6	¥70,317 million	82.7	¥91.01	87.2	—
FY ending Dec. 2015 (Forecast)	¥486,500 million	5.5	¥85,000 million	10.0	¥104.42	9.9	49.8

Notes: 1. Percentages shown for forecasts of revenues, Core operating profit and Core EPS represent changes from the same period of the previous fiscal year. Percentages for results represent the percentage of forecast levels that have been achieved to date.

2. Whether the most recent forecasts for consolidated figures have been revised: No

3. The figures for the consolidated forecasts and actuals are calculated based on Core basis indicators established by Chugai 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 Sep. 30, 2015	559,685,889	As of Dec. 31, 2014	559,685,889
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(b) Number of treasury stock at the end of the period

As of Sep. 30, 2015	13,686,865	As of Dec. 31, 2014	14,258,437
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(c) Average number of shares issued during the period (nine months)

First nine months of FY 2015	545,693,763	First nine months of FY 2014	544,967,729
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Notes:

Items related to the status of the implementation of quarterly reviews

At the time of disclosure of these quarterly consolidated financial statements, review procedures were in progress for the quarterly 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 “Forecast for consolidated performance” on page 5.

(4) Chugai Pharmaceutical Co., Ltd. (“Chugai”) is scheduled to hold a conference call for investors as noted below. The materials used for the call, the verbal recording, the Q&A, and other related documents will be posted on the Chugai’s website following the conclusion of the conference call.

Teleconference for institutional investors and securities analysts (Japanese only): October 22, 2015, Thursday (Japan time). The English translation of the conference materials will be posted on the website on the next business day.

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1. Qualitative Information

(1) Consolidated operating results in billions of yen

	First nine months of FY 2015.12 (Jan. 1, 2015–Sep. 30, 2015)	First nine months of FY 2014.12 (Jan. 1, 2014–Sep. 30, 2014)	% change
Core results			
Revenues	367.8	333.4	+10.3
Sales (excluding Tamiflu)	346.5	308.0	+12.5
Tamiflu sales	6.7	7.2	(6.9)
Royalties and other operating income	14.5	18.3	(20.8)
Cost of sales	(177.7)	(156.5)	+13.5
Gross profit	190.1	176.9	+7.5
Marketing and distribution	(52.0)	(51.7)	+0.6
Research and development	(58.8)	(55.4)	+6.1
General and administration	(8.9)	(9.7)	(8.2)
Operating profit	70.3	60.1	+17.0
Net income	50.7	41.2	+23.1
IFRS results			
Revenues	367.8	333.4	+10.3
Operating profit	67.1	59.1	+13.5
Net income	48.6	40.6	+19.7

Consolidated financial highlights (IFRS results)

Revenues for the third quarter under review were ¥367.8 billion (an increase of 10.3% year on year), operating profit for the third quarter under review was ¥67.1 billion (an increase of 13.5% year on year), and net income for the third quarter under review was ¥48.6 billion (an increase of 19.7% year on year). These results include non-Core items, such as amortization of intangible assets of ¥1.2 billion, impairment of intangible assets of ¥1.9 billion, environmental expenses of ¥0.2 billion, and other items, which are excluded from the Core results that Chugai adopts to manage recurring business activities.

Consolidated financial highlights (Core results)

Revenues for the third quarter under review were ¥367.8 billion (an increase of 10.3% year on year) due to the strong growth in sales. Of revenues, sales excluding Tamiflu were ¥346.5 billion (an increase of 12.5% year on year), due to the steady growth of new products and major products. Meanwhile, royalties and other operating income were ¥14.5 billion (a decrease of 20.8% year on year) due to the year-on-year decrease in milestone income. As a result, gross profit amounted to ¥190.1 billion (an increase of 7.5% year on year). Marketing and distribution expenses were almost comparable to the levels of the same period of the previous fiscal year at ¥52.0 billion (an increase of 0.6% year on year), and research and development expenses were ¥58.8 billion (an increase of 6.1% year on year), due mainly to the increase in research and development activities associated with the progress in development projects and the depreciation of the yen. General and administration expenses were ¥8.9 billion (a decrease of 8.2% year on year) due to the one-time increases in expenditures associated with buildings etc. in the previous fiscal year. As a result, Core operating profit was ¥70.3 billion (an increase of 17.0% year on year). Core net income was ¥50.7 billion (an increase of 23.1% year on year), due to the reduction of the tax burden ratio due mainly to 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

	First nine months of FY 2015.12 (Jan. 1, 2015–Sep. 30, 2015)	First nine months of FY 2014.12 (Jan. 1, 2014–Sep. 30, 2014)	% change
Sales	353.3	315.1	+12.1
Domestic sales (excluding Tamiflu)	275.4	254.2	+8.3
Oncology	156.9	135.8	+15.5
Bone and joint diseases	57.5	50.3	+14.3
Renal diseases	33.1	32.9	+0.6
Transplant, immunology, and infectious diseases	11.5	16.1	(28.6)
Others	16.5	19.1	(13.6)
Tamiflu sales	6.7	7.2	(6.9)
Ordinary use	6.7	7.0	(4.3)
Government stockpiles	0.0	0.2	(100.0)
Overseas sales	71.1	53.7	+32.4

Domestic sales (excluding Tamiflu)

Domestic sales excluding Tamiflu were ¥275.4 billion (an increase of 8.3% year on year).

Oncology products sales were ¥156.9 billion (an increase of 15.5% year on year). This increase was due to the steady expansion in sales of major drugs such as Perjeta (an anti-HER2 humanized monoclonal antibody, anti-cancer agent) and Avastin (an anti-VEGF humanized monoclonal antibody, anti-cancer agent). In addition, there was a contribution by the two new products launched in 2014, which are Kadcyra (an anti-HER2 antibody - tubulin polymerization inhibitor conjugate) launched in April 2014 and Alecensa (an ALK inhibitor, anti-cancer agent) launched in September 2014. Sales of Zelboraf (a BRAF inhibitor, anti-cancer agent) launched in February 2015 were ¥0.3 billion.

Bone and joint diseases products sales were ¥57.5 billion (an increase of 14.3% year on year), due to the strong sales of mainstay products such as Edirof, a top brand in the domestic market of oral therapeutic agents for osteoporosis, Actemra (a humanized anti-IL-6 receptor monoclonal antibody) and Bonviva, a bisphosphonate antiresorptive agent.

Renal diseases products sales amounted to ¥33.1 billion (an increase of 0.6% year on year), due to the solid sales of Mircera (a long-lasting erythropoiesis-stimulating agent), offsetting a decrease in the sales of Epogin (a recombinant human erythropoietin agent) resulting from the effects of the NHI drug price revisions in April 2014.

In the area of transplant, immunology, and infectious diseases products (excluding Tamiflu), sales were ¥11.5 billion (a decrease of 28.6% year on year) due to a substantial decline in sales of Pegasys (a peginterferon- α -2a agent) and Copegus (an anti-viral agent), as a result of the new triple combination therapy for chronic hepatitis C having run its course and newly launched 3rd party products.

Tamiflu sales

Sales of Tamiflu (an anti-influenza agent) for ordinary use were ¥6.7 billion (a decrease of 4.3% year on year), while sales to government stockpiles etc. were less than ¥0.1 billion.

Overseas sales

Overseas sales amounted to ¥71.1 billion (an increase of 32.4% year on year), due mainly to an increase of Actemra exports to Roche in volume and the impact of the depreciation of the yen.

(2) Consolidated financial position

Assets, liabilities, and net assets in billions of yen

	September 30, 2015	December 31, 2014	% change
Movements of assets and liabilities			
Net working capital	202.7	209.4	(3.2)
Long-term net operating assets	153.4	148.4	+3.4
Net operating assets (NOA)	356.2	357.7	(0.4)
Net cash	242.5	229.9	+5.5
Other non-operating assets - net	16.4	10.2	+60.8
Total net assets	615.1	597.8	+2.9
Consolidated balance sheet (IFRS basis)			
Total assets	753.5	739.5	+1.9
Total liabilities	(138.4)	(141.8)	(2.4)
Total net assets	615.1	597.8	+2.9

Net working capital at September 30, 2015 was ¥202.7 billion (a decrease of ¥6.7 billion since December 31, 2014). This was because a decrease in accounts receivable-trade of domestic sales and an increase in accounts payable-trade related to raw materials imported from Roche outweighed an increase in inventories associated with the depreciation of the yen and the difference in the timing of import. Long-term net operating assets increased by ¥5.0 billion since the end of the previous fiscal year to ¥153.4 billion, due mainly to the increase in equipment and intangible assets. As a result, net operating assets (NOA) were ¥356.2 billion, ¥1.5 billion lower 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 ¥12.6 billion since December 31, 2014 to ¥242.5 billion. Also, other non-operating assets - net increased by ¥6.2 billion since the end of the previous fiscal year to ¥16.4 billion mainly due to a decrease in current corporation tax and inhabitants tax liabilities, offsetting an increase in foreign exchange contracts liabilities.

As a consequence, total net assets were ¥615.1 billion (an increase of ¥17.3 billion since December 31, 2014).

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”.

Cash flows in billions of yen

	First nine months of FY 2015.12 (Jan. 1, 2015–Sep. 30, 2015)	First nine months of FY 2014.12 (Jan. 1, 2014–Sep. 30, 2014)	% change
Movements of free cash flows			
Operating profit - IFRS basis	67.1	59.1	+13.5
Operating profit, net of operating cash adjustments	80.6	75.2	+7.2
Operating free cash flows	68.6	38.0	+80.5
Free cash flows	14.2	(11.5)	—
Net change in net cash	12.6	(11.6)	—
Consolidated statement of cash flows (IFRS basis)			
Cash flows from operating activities	65.9	27.5	+139.6
Cash flows from investing activities	(28.8)	(9.6)	+200.0
Cash flows from financing activities	(28.4)	(24.5)	+15.9
Net change in cash and cash equivalents	7.5	(6.9)	—
Cash and cash equivalents at September 30	121.6	108.1	+12.5

Operating profit, net of operating cash adjustments, amounted to ¥80.6 billion. This is calculated by adjusting for depreciation and other items that are included in operating profit but are not accompanied by cash inflows or outflows and all inflows and outflows related to NOA that are not accompanied by profit and loss. The principal items influencing this result were a total of ¥10.4 billion in depreciation of property, plant and equipment.

Operating free cash flows, which are calculated by adding a decrease in net working capital of ¥9.4 billion and subtracting expenditures of ¥21.3 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 ¥68.6 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 inflow of ¥14.2 billion. This is calculated by subtracting a total of ¥54.4 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, was an increase of ¥12.6 billion in comparison with the end of the previous fiscal year. The net change in cash and cash equivalents, excluding changes in marketable securities and interest-bearing debt, was a net cash inflow of ¥7.5 billion. The cash and cash equivalents balance at the end of this period amounted to ¥121.6 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”.

(3) Forecast for consolidated performance

Chugai has not made any changes in its forecast of consolidated results for the fiscal year ending December 31, 2015 since the announcement regarding the forecast issued on January 28, 2015.

Note: In “1. Qualitative Information”, amounts less than ¥0.1 billion have been rounded to the nearest ¥0.1 billion. Figures for changes in amounts and percentages have been calculated using data denominated in ¥0.1 billion units.

2. Other Information

(1) Changes in the state of material subsidiaries during the period

None

(2) Changes in accounting principles and changes in accounting estimates

None

3. Interim Condensed Consolidated Financial Statements

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

1) Interim condensed consolidated income statement in millions of yen

	First nine months ended September 30	
	2015	2014
Revenues	367,772	333,426
Sales	353,253	315,149
Royalties and other operating income	14,519	18,278
Cost of sales	(178,722)	(157,329)
Gross profit	189,050	176,097
Marketing and distribution	(52,149)	(51,724)
Research and development	(60,696)	(55,506)
General and administration	(9,145)	(9,733)
Operating profit	67,059	59,134
Financing costs	(54)	(13)
Other financial income (expense)	385	298
Profit before taxes	67,390	59,420
Income taxes	(18,806)	(18,845)
Net income	48,584	40,575
Attributable to:		
Chugai shareholders	47,647	39,730
Non-controlling interests	937	845
Earnings per share		
Basic (yen)	87.31	72.90
Diluted (yen)	87.15	72.79

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

	First nine months ended September 30	
	2015	2014
Net income recognized in income statement	48,584	40,575
Other comprehensive income		
Remeasurements of defined benefit plans	(309)	-
Items that will not be reclassified to the income statement	(309)	-
Available-for-sale investments	1,012	(1,022)
Cash flow hedges	(1,168)	(3,541)
Currency translation of foreign operations	(2,639)	(1,154)
Items that may be reclassified subsequently to the income statement	(2,795)	(5,718)
Other comprehensive income, net of tax	(3,103)	(5,718)
Total comprehensive income	45,480	34,857
Attributable to:		
Chugai shareholders	44,649	34,066
Non-controlling interests	832	791

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

	September 30, 2015	December 31, 2014
Assets		
Non-current assets:		
Property, plant and equipment	142,809	140,245
Intangible assets	13,310	11,286
Financial non-current assets	12,519	10,755
Deferred tax assets	23,920	25,673
Defined benefit plan assets	1,369	1,946
Other non-current assets	10,991	10,728
Total non-current assets	204,918	200,635
Current assets:		
Inventories	154,301	139,571
Accounts receivable	138,531	159,773
Current income tax assets	3	114
Marketable securities	121,714	116,030
Cash and cash equivalents	121,552	114,037
Other current assets	12,474	9,379
Total current assets	548,574	538,904
Total assets	753,492	739,538
Liabilities		
Non-current liabilities:		
Long-term debt	(629)	(185)
Deferred tax liabilities	(9,331)	(10,722)
Defined benefit plan liabilities	(3,117)	(2,616)
Long-term provisions	(1,890)	(2,110)
Other non-current liabilities	(11,776)	(11,799)
Total non-current liabilities	(26,743)	(27,432)
Current liabilities:		
Short-term debt	(130)	(29)
Current income tax liabilities	(6,397)	(16,619)
Short-term provisions	(937)	(987)
Accounts payable	(64,681)	(62,694)
Other current liabilities	(39,538)	(34,021)
Total current liabilities	(111,682)	(114,350)
Total liabilities	(138,425)	(141,782)
Total net assets	615,068	597,756
Equity:		
Capital and reserves attributable to Chugai shareholders	613,918	596,099
Equity attributable to non-controlling interests	1,150	1,657
Total equity	615,068	597,756

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

	First nine months ended September 30	
	2015	2014
Cash flows from operating activities		
Cash generated from operations	83,936	77,044
(Increase) decrease in working capital	9,353	(22,647)
Payments made for defined benefit plans	(1,788)	(1,378)
Utilization of provisions	(107)	(51)
Other operating cash flows	2,678	(742)
Cash flows from operating activities, before income taxes paid	94,072	52,226
Income taxes paid	(28,151)	(24,773)
Total cash flows from operating activities	65,921	27,453
Cash flows from investing activities		
Purchase of property, plant and equipment	(15,470)	(12,083)
Purchase of intangible assets	(5,868)	(2,446)
Disposal of property, plant and equipment	(359)	718
Interest and dividends received	212	348
Purchases of marketable securities	(150,998)	(155,233)
Sales of marketable securities	144,246	159,124
Other investing cash flows	(606)	(49)
Total cash flows from investing activities	(28,843)	(9,621)
Cash flows from financing activities		
Interest paid	(5)	(5)
Dividends paid to Chugai shareholders	(28,270)	(24,402)
Dividends paid to non-controlling shareholders	(1,064)	(962)
Exercise of equity compensation plans	1,279	919
(Increase) decrease in own equity instruments	(14)	(14)
Other financing cash flows	(337)	(87)
Total cash flows from financing activities	(28,411)	(24,550)
Net effect of currency translation on cash and cash equivalents	(1,153)	(210)
Increase (decrease) in cash and cash equivalents	7,515	(6,928)
Cash and cash equivalents at January 1	114,037	115,070
Cash and cash equivalents at September 30	121,552	108,142

(4) Interim condensed consolidated statement of changes in equity in millions of yen**For the first nine months ended September 30, 2014 (Jan. 1, 2014 – September 30, 2014)**

	Attributable to Chugai shareholders				Subtotal	Non-controlling interests	Total equity
	Share capital	Capital surplus	Retained earnings	Other reserves			
At January 1, 2014	72,967	65,768	426,213	6,744	571,692	1,512	573,204
Net income	-	-	39,730	-	39,730	845	40,575
Available-for-sale investments	-	-	-	(1,022)	(1,022)	-	(1,022)
Cash flow hedges	-	-	-	(3,541)	(3,541)	-	(3,541)
Currency translation of foreign operations	-	-	-	(1,100)	(1,100)	(54)	(1,154)
Total comprehensive income	-	-	39,730	(5,664)	34,066	791	34,857
Dividends	-	-	(24,521)	-	(24,521)	(962)	(25,483)
Equity compensation plans	-	(72)	-	-	(72)	-	(72)
Own equity instruments	-	1,228	-	-	1,228	-	1,228
At September 30, 2014	72,967	66,923	441,422	1,080	582,392	1,341	583,733

For the first nine months ended September 30, 2015 (Jan. 1, 2015 – September 30, 2015)

	Attributable to Chugai shareholders				Subtotal	Non-controlling interests	Total equity
	Share capital	Capital surplus	Retained earnings	Other reserves			
At January 1, 2015	72,967	67,317	451,220	4,594	596,099	1,657	597,756
Net income	-	-	47,647	-	47,647	937	48,584
Available-for-sale investments	-	-	-	1,012	1,012	-	1,012
Cash flow hedges	-	-	-	(1,168)	(1,168)	-	(1,168)
Currency translation of foreign operations	-	-	-	(2,534)	(2,534)	(105)	(2,639)
Remeasurements of defined benefit plans	-	-	(309)	-	(309)	-	(309)
Total comprehensive income	-	-	47,338	(2,690)	44,649	832	45,480
Dividends	-	-	(28,372)	-	(28,372)	(1,064)	(29,436)
Equity compensation plans	-	(112)	-	-	(112)	-	(112)
Own equity instruments	-	1,661	-	-	1,661	-	1,661
Changes in non-controlling interests	-	(8)	-	-	(8)	(275)	(283)
At September 30, 2015	72,967	68,859	470,187	1,905	613,918	1,150	615,068

(5) Notes regarding the going concern assumption

None

(6) Notes regarding the interim condensed consolidated financial statements**General accounting principles and significant accounting policies****(a) Basis of preparation of the consolidated financial statements**

These financial statements are the interim condensed consolidated financial statements (“Interim Financial Statements”) of Chugai, a company registered in Japan, and its subsidiaries (“the Group”). The common stock of Chugai is publicly traded and listed on the Tokyo Stock Exchange under the stock code “TSE: 4519”. The Interim Financial Statements were approved by the Board of Directors on October 22, 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 IFRS. The shareholding percentage of Roche Holding Ltd. in Chugai is 59.89% (61.39% of the total number of shares issued excluding treasury stock). The Group became principal members of the Roche Group after entering into a strategic alliance in October 2002.

The Group meets all of the requirements for a “Specified Company” as stipulated under Article 1-2 of the “Regulations Concerning Terminology, Forms, and Preparation Methods of Consolidated Financial Statements” (Ministry of Finance of Japan Regulation No. 28, 1976). Hence, in accordance with Article 93 of the “Ordinance on Terminology, Forms, and Preparation Methods of Quarterly Consolidated Financial Statements” (Japanese Cabinet Ordinance No. 64, 2007), the Interim Financial Statements have been prepared in accordance with the International Accounting Standard (IAS) No. 34 “Interim Financial Reporting”.

The Interim Financial Statements should be used with the consolidated financial statements for the year ended December 31, 2014 as it does not include all the information as required for the consolidated financial statements for the full fiscal year.

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

(b) Key accounting judgments, estimates and assumptions

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

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

(c) Significant accounting policies

The Group applies the same significant accounting policies that are used for the prior fiscal year’s consolidated financial statements to the Interim Financial Statements.