CHUGAI PHARMACEUTICAL CO., LTD.

A member of the Roche group

CONSOLIDATED FINANCIAL STATEMENTS (Japan GAAP) (Non-Audited)

(for the fiscal year 2012.12, ended December 31, 2012)

Name of Company: Chugai Pharmaceutical Co., Ltd. January 30, 2013
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, 2013
Date of Submission of Marketable Securities Filings: March 27, 2013
Date on which Dividend Payments to Commence: March 28, 2013
Supplementary Materials Prepared for the Financial Statements: Yes
Presentation Held to Explain the Financial Statements: Yes (for institutional investors and analysts)

1. Consolidated Operating Results for the FY 2012.12, Ended December 31, 2012

(1) Results of operations *Note: Amounts of less than one million yen are omitted.*

	Revenues	% Change	Operating Income	% Change	Ordinary Income	% Change
FY ended Dec. 2012	¥391,220 million	4.7	¥76,413 million	22.4	¥75,406 million	18.6
FY ended Dec. 2011	¥373,516 million	(1.6)	¥62,430 million	(5.7)	¥63,585 million	(2.3)

Notes: Comprehensive income for the year ended December 31, 2012: ¥53,317 million, 57.0%
Comprehensive income for the year ended December 31, 2011: ¥33,966 million, (9.4)%
Percentages represent changes compared with the same period of the previous fiscal year.

	Net Income	% Change	Net Income per Share (Basic)	Net Income per Share (Fully Diluted)
FY ended Dec. 2012	¥48,205 million	36.8	¥88.58	¥88.54
FY ended Dec. 2011	¥35,234 million	(15.0)	¥64.75	¥64.73

	Ratio of Net Income to Shareholders' Equity	Ratio of Ordinary Income to Total Assets	Ratio of Operating Income to Revenues
FY ended Dec. 2012	10.2%	13.5%	19.5%
FY ended Dec. 2011	7.8%	12.2%	16.7%

Reference: Equity-method earnings for the year ended December 31, 2012: ¥— million
Equity-method earnings for the year ended December 31, 2011: ¥— million

(2) Financial conditions

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
As of Dec. 31, 2012	¥587,720 million	¥490,074 million	83.0%	¥896.02
As of Dec. 31, 2011	¥533,482 million	¥459,072 million	85.6%	¥839.50

Reference: Shareholders' equity for the year ended December 31, 2012: ¥487,652 million
Shareholders' equity for the year ended December 31, 2011: ¥456,848 million

(3) Results of cash flows

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Balance of Cash and Cash Equivalents
FY ended Dec. 2012	¥77,299 million	¥(54,769) million	¥(22,720) million	¥95,445 million
FY ended Dec. 2011	¥69,593 million	¥(15,135) million	¥(24,551) million	¥94,474 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. 2011	—	¥20.00	—	¥20.00	¥40.00
FY ended Dec. 2012	—	¥20.00	—	¥20.00	¥40.00
FY ending Dec. 2013 (Forecast)	—	¥22.00	—	¥23.00	¥45.00

	Total Dividends (Annual)	Dividend Payout Ratio (Consolidated)	Ratio of Dividends to Net Assets (Consolidated)
FY ended Dec. 2011	¥21,767 million	61.8%	4.8%
FY ended Dec. 2012	¥21,769 million	45.2%	4.6%
FY ending Dec. 2013 (Forecast)			

3. Consolidated Forecasts for the FY 2013.12, Ending December 31, 2013

	Revenues	% Change	Core Operating Profit	% Change	Core Earnings Per Share	Core Dividend Payout Ratio
FY ending Dec. 2013	¥416,000 million	7.6	¥77,500 million	2.5	¥92.57	48.6%

Notes: Since the Company has decided to apply International Financial Reporting Standards (IFRS) from the fiscal year ending December 31, 2013, on a voluntary basis, figures in the "Consolidated Forecasts" shown above are based on IFRS (core basis). For further details on forecasts, please refer to the attachment entitled "Analysis concerning Business Performance" on page 2-4. For performance forecasts, please refer to "Explanation of the appropriate use of performance forecasts and other related items"on the following page.

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

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, changes in accounting estimates, and restatements
- (a) Changes in accounting principles accompanying revisions in accounting standards: Yes
- (b) Changes in accounting principles other than those in (a) above: Yes
- (c) Changes in accounting estimates: Yes
- (d) Restatements: None

Note: The changes meet the definition of "Regulation for Terminology, Forms and Preparation of Consolidated Financial Statements" in paragraph 7 of Article 14 (changes in accounting policies which are difficult to distinguish from changes in accounting estimates). For further details, please refer to "Changes in Accounting Principles" on page 19.

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

(a) Number of shares at the end of the period (including treasury stock):
Fiscal year ended December 31, 2012: 559,685,889
Fiscal year ended December 31, 2011: 559,685,889

(b) Number of treasury shares at the end of the period:
Fiscal year ended December 31, 2012: 15,440,438
Fiscal year ended December 31, 2011: 15,494,118

(c) Average number of shares issued during the period:
Fiscal year ended December 31, 2012: 544,213,366
Fiscal year ended December 31, 2011: 544,193,122

Note: For an explanation of the number of shares used for computing net income per share (consolidated), please refer to "Per Share Information" on page 25.

(Reference)

Non-Consolidated Operating Results for the FY 2012.12, Ended December 31, 2012

(1) Non-consolidated results of operations

	Revenues	% Change	Operating Income	% Change	Ordinary Income	% Change
FY ended Dec. 2012	¥382,099 million	5.0	¥68,836 million	24.8	¥69,993 million	21.6
FY ended Dec. 2011	¥363,779 million	(1.0)	¥55,160 million	(4.2)	¥57,546 million	(0.4)

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

	Net Income	% Change	Net Income per Share (Basic)	Net Income per Share (Fully Diluted)
FY ended Dec. 2012	¥45,699 million	29.3	¥83.97	¥83.93
FY ended Dec. 2011	¥35,347 million	(5.1)	¥64.95	¥64.93

(2) Non-consolidated financial conditions

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
As of Dec. 31, 2012	¥557,261 million	¥460,184 million	82.4%	¥843.30
As of Dec. 31, 2011	¥503,738 million	¥435,054 million	86.2%	¥797.58

Reference: Shareholders' equity for the year ended December 31, 2012: ¥458,964 million
Shareholders' equity for the year ended December 31, 2011: ¥434,038 million

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

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.

The forecast which is published to shareholders and investors is based on internal management indicator IFRS (core basis). The difference between IFRS results and IFRS (core basis) results will be explained each quarterly event and presentation。 For the specifics of the forecasts, please refer to the items "1. Business Performance, "1. Business Performance, (1) "Analysis concerning Business Performance" on page 2-4, " 3) Basic Profit Distribution Principles and Dividends for the Fiscal Year under Review and the Following Fiscal Year" on page 6, "3. Management Principles and Goals on page 9-10".

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).

The Company is scheduled to hold a presentation for investors as noted below. The materials used for the presentation, the voice portion, the Q&A, and other related documents will be posted on the Company's website immediately following the conclusion of the presentation.

Presentation for institutional investors and analysts: January 31, 2013, Thursday (Japan time)

Index of the Attachment

1. Business Performance

(1) Analysis concerning Business Performance

1) Overview of Fiscal Year 2012.12, ended December 31, 2012

(a) Summary of Business Activities

During the fiscal year under review, the operating environment in the pharmaceutical industry remained difficult, despite recovery from the Great East Japan Earthquake that occurred on March 11, 2011, because of the continued implementation of measures to restrain healthcare costs.

Amid these conditions, the Chugai Group aggressively continued R&D activities aiming to develop and secure innovative pharmaceuticals. Also, the Group has many innovative new pharmaceuticals, and, with the goal of promoting the ethical and scientific use of these products, continued academic and promotional activities that will gain the trust of customers.

Consolidated Financial Highlights

The following table provides a summary of the Company's consolidated performance for the fiscal year under review. Increases were reported in both revenues and income compared with the previous fiscal year.

(Billions of Yen)

	FY 2011.12 (Jan. 1, 2011–Dec. 31, 2011)	FY 2012.12 (Jan. 1, 2012–Dec. 31, 2012)	% Change
Revenues	373.5	391.2	+4.7
Sales (excluding Tamiflu)	354.9	363.2	+2.3
Cost of sales	157.5	167.7	+6.5
Gross profit	216.0	223.5	+3.5
SG&A (excl. R&D) expenses	97.7	92.0	(5.8)
R&D expenses	55.9	55.1	(1.4)
Operating income	62.4	76.4	+22.4
Ordinary income	63.6	75.4	+18.6
Net income	35.2	48.2	+36.9

Consolidated revenues for the fiscal year under review amounted to ¥391.2 billion (an increase of 4.7% year on year).

Sales, excluding Tamiflu, an anti-influenza agent, which shows major fluctuations from year to year, and other operating revenues were ¥363.2 billion (an increase of 2.3% year on year). Sales of Tamiflu alone amounted to ¥12.0 billion, an increase of 37.9% year on year, and other revenues amounted to ¥16.0 billion, an increase of 61.6% year on year.

Domestic Sales (Excluding Tamiflu)

Domestic sales (excluding Tamiflu) amounted to ¥320.9 billion (an increase of 1.8%). Although sales of Epogin (a recombinant human erythropoietin), a major product in the Company's lineup of renal disease treatment for many years, declined and a National Health Insurance (NHI) drug price revision was implemented, sales of products in the oncology field, including Avastin (an anti-vascular endothelial growth factor (VEGF) humanized monoclonal antibody, anti-cancer agent) as well as sales of Edirol (an active vitamin D_3 derivative) and Mircera (a long-acting erythropoiesis-stimulating agent), both of which were launched in 2011, contributed to the overall increase in domestic sales.

In the oncology field, sales continued to rise and amounted to ¥156.1 billion (an increase of 10.0% year on year). This was due to steady increases in sales of Avastin, Herceptin (an anti-HER-2-humanized monoclonal antibody, anti-cancer agent), and Tarceva (an epidermal growth factor receptor (EGFR) tyrosine kinase inhibitor, anti-cancer agent), which brought the overall increase in this field to double-digit levels. Although a re-calculation of market expansion for Avastin resulted in a downward NHI drug price revision of 8.8%, this drug maintained a high share in the market for treatments for colorectal cancer and showed faster penetration of the markets for lung and breast cancer due to active market launching programs. As a consequence, overall sales in this field expanded.

In the bone and joint disease field, overall sales were ¥66.3 billion (an increase of 0.2%). Sales of Edirol (a second-generation, active vitamin D_3 derivative), which was launched in April 2011, have steadily penetrated the market since the removal of long-term prescription restrictions in April 2012, and its total sales expanded significantly. On the other hand, sales of Alfarol (a calcium bone metabolism stimulator 1α-OH-D_3 derivative) decreased, and sales of Evista (an agent for the treatment of osteoporosis) declined because of more-intense competition. In addition, although Actemra (a humanized anti-human IL-6 receptor monoclonal antibody) maintained a high rate of increase in volume terms, sales remained steady year on year as a result of a re-calculation of market expansion, which resulted in a downward NHI drug price revision of 25.0%.

In the renal diseases field, sales amounted to ¥48.1 billion (a decrease of 5.1% year on year). Factors accounting for this were the substantial decline in sales of Epogin because of the shift to usage of Mircera, which was launched in July 2011, and increased competition from follow-on biologics (biosimilars). Gaining proper awareness of the special characteristics of Mircera is requiring more time than expected and market penetration is lagging. As a result, sales have declined as mentioned.

In the transplant, immunology, and infectious disease field (excluding Tamiflu), sales were ¥20.3 billion (a decrease of 11.0% year on year). This decrease was mainly due to a drop in sales of Pegasys (a peginterferon-α-2a) and Copegus (an anti-viral agent) owing to the shrinkage in the market for interferon agents and the launch of competing products.

Tamiflu (an Anti-Influenza Agent)

Sales of Tamiflu for ordinary use amounted to ¥10.2 billion (an 88.9% increase year on year). Sales to government stockpiles amounted to ¥1.9 billion (a decrease of 42.4% year on year).

Overseas Sales

Overseas sales amounted to ¥42.3 billion (a 6.8% increase year on year). Exports of Actemra to Roche in unit terms rose markedly and offset the decline in overseas revenues overall caused by the appreciation of the yen.

(b) Financial Results

Gross profit for the fiscal year amounted to ¥223.5 billion (an increase of 3.5% year on year). This rise was due to a combination of an increase in gross profit on sales of products and a major increase in other operating revenues. Developments resulting in higher other operating revenues included lump-sum payments received along with the out-licensing of products developed by the Company, an increase in revenues related to Actemra (royalties on overseas sales and the profit sharing of co-promotion in European countries), and other factors.

Selling, general and administrative expenses, excluding R&D expenses, were ¥92.0 billion (a decrease of 5.8% year on year), owing to more-efficient use of expenses. R&D expenses were ¥55.1 billion (a decrease of 1.4% year on year).

As a result of these various factors, operating income amounted to ¥76.4 billion (an increase of 22.4% year on year), ordinary income was ¥75.4 billion (an increase of 18.6% year on year), and net income was ¥48.2 billion (an increase of 36.9% year on year).

Principal non-consolidated and consolidated performance figures, and the ratios between those figures, are as follows.

	Non-Consolidated (A) (Billions of Yen)	Consolidated (B) (Billions of Yen)	B/A (Times)
Revenues	382.1	391.2	1.02
Operating income	68.8	76.4	1.11
Ordinary income	70.0	75.4	1.08
Net income	45.7	48.2	1.05

(c) R&D Activities

In Japan and abroad, the Chugai 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 Chugai Group's research bases in Fuji Gotemba and Kamakura 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 Nissho Chugai Pharma Development Co., Ltd. (Taiwan) are engaged in clinical development and submission of applications in their respective countries. PharmaLogicals Research Pte. Ltd. (Singapore) and Chugai Pharmabody Research Pte. Ltd. (Singapore) undertake pharmaceutical research, and affiliated company C&C Research Laboratories (South Korea) is engaged in pharmaceutical research.

In the fiscal year under review, R&D expenses totaled ¥55.1 billion.

(d) Progress under the Medium-Term Business Plan

The Chugai Group formulated its Medium-Term Business Plan "Sunrise 2012," covering the period from 2008 through 2012, and aimed for consolidated revenues of ¥460 billion and operating income of ¥80 billion by the final year.

As a result of a number of discrepancies between the assumptions of the plan and actual events, consolidated revenues were ¥68.8 billion below the target. These discrepancies included the delay in approvals of Actemra in the United States and the restrictions that were imposed on its usage at the time of its launch as well as the prolongation of shipping adjustments were necessitated by the effects of the Great East Japan Earthquake.

On the other hand, although operating income was ¥3.6 billion below target because of effects of the shortfall from the target level of revenues, operating income ratio was 2.1 points above the original plan target. This was the result of a number of factors, including the readjustment of burden-sharing between the Company and Roche at the time of NHI drug price revisions, improvements in the cost of sales ratios because of postponement of price reductions under special measures for new drugs which were applicable to many major Company product, and the unrelenting drive to increase efficiency in all divisions of the Company.

Compared with the results for fiscal 2007, before the Company began to implement Sunrise 2012, the number of major pharmaceuticals with annual sales of ¥20 billion or more increased from two to five (excluding Tamiflu sales, which vary widely from year to year along with the size of the influenza epidemics). In addition, the number of new active ingredients in phase three trials or later stages in development increased from four to seven, indicating that the Company has substantially strengthened its business base for future growth.

2) Outlook for the Next Fiscal Year

The Company will voluntary adopt IFRS to improve the international comparability of financial information for investors and other users of the financial statements for the year ending December 31, 2013. Our results from the first quarter of the fiscal year ending December 31, 2013 will be disclosed according to IFRS. For this reason, our outlook for the Next Fiscal Year is forecasted according to IFRS (Core basis).

(a) Forecast Assumptions

In preparing this performance outlook, the Company has assumed exchange rates of ¥95/CHF, ¥115/EUR, and ¥88/USD. The Company 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.

(b) Outlook for the Fiscal Year

Revenues

Our outlook for sales of Tamiflu is ¥8.8 billion (a decrease of 26.7% year on year), including ¥0.8 billion in orders for government stockpiles.

Domestic sales, excluding Tamiflu, are forecast to rise steadily to ¥329.3 billion (an increase of 2.6% year on year). Although sales of Evista (for the treatment of post-menopausal osteoporosis) (¥16.1 billion in previous fiscal year) will decline from the previous fiscal year because of the termination of co-marketing agreement with Japan Eli Lilly as of December 31, 2012, sales of Avastin and other drugs in the oncology domain and sales of Edirol and Mircera will show continued growth. In addition, the Company plans to launch a number of new products and expand indications for existing 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 ¥40.6 billion (an increase of 58.6% year on year), as growth in sales of Actemra overseas continues. On the other hand, overseas sales of other products are forecast to decline to ¥15.6 billion (a decrease of 6.6% year on year) as sales of Neutrogin decline owing to competition from follow-on biologics.

Royalties and other operating revenues are forecast to rise to ¥21.7 billion (an increase of 92.0% year on year) because of increases in revenues from out-licensing and from Roche for co-promotion and royalties of Actemra.

Core Operating Profit / Core EPS

Profitwise, these increases in revenues will expand gross profit, but budgeted costs have been increased to reflect higher costs arising from activities to promote the proper use of new products and products with extended indications and progress in development themes as well as the commencement of the activities of Chugai Pharmabody Research Pte. Ltd., which began operations in the previous fiscal year. As a result, the budgets have been expanded. Core operating profit is, therefore, forecast to be ¥77.5 billion (an increase of 2.5% year on year). Core EPS will be ¥92.57 (an increase of 8.1% year on year).

(Billions of Yen)

	Outlook for FY 2013	% Change
Revenues	416.0	+7.6%
Sales excluding Tamiflu	385.5	+6.1%
Core operating profit	77.5	+2.5%

Note: In this item, amounts less than ¥100 million have been rounded off. Figures for changes in amounts and percentage increases and decreases have been calculated using data denominated in ¥100 million units.

(2) Analysis concerning Financial Status

1) Assets, Liabilities, and Net Assets

At the end of the fiscal year under review, total assets on a consolidated basis amounted to ¥587.7 billion, representing an increase of ¥54.2 billion from the end of the previous fiscal year. The principal factors accounting for this change in total assets were a rise in marketable securities of ¥40.0 billion, an increase of ¥11.9 billion in raw materials and supplies, a gain of ¥9.1 billion in trade notes and accounts receivable, and a decrease in merchandise and finished goods of ¥8.2 billion.

Total liabilities stood at ¥97.6 billion at the end of the fiscal year, an increase of ¥23.2 billion from a year earlier. The principal factor accounting for this rise was an increase in trade notes and accounts payable of ¥24.3 billion.

Total net assets were ¥490.1 billion, ¥31.0 billion higher than at the end of the previous fiscal year-end. The principal reason for this increase was a rise in retained earnings of ¥26.5 billion, due to the reporting of ¥48.2 billion in net income, after the payment of dividends from retained earnings of ¥21.8 billion.

As a result, the ratio of shareholders' equity to total assets on a consolidated basis was 83.0%, compared with 85.6% at the end of the previous fiscal year.

2) Cash Flows

Cash and cash equivalents at the end of the fiscal year under review amounted to ¥95.4 billion (compared with a balance of ¥94.5 billion at the end of the previous fiscal year).

Net cash provided by operating activities amounted to ¥77.3 billion, compared with ¥69.6 billion in the previous fiscal year. Principal factors influencing net cash from operating activities were income before income taxes and minority interests of ¥75.3 billion, income taxes paid of ¥25.5 billion, an increase in trade notes and account payable of ¥24.3 billion, depreciation and amortization of ¥15.3 billion, and an increase in trade notes and accounts receivable of ¥8.9 billion.

Net cash used in investing activities was ¥54.8 billion, compared with ¥15.1 billion in the previous fiscal year. Principal factors influencing cash used in investing activities were net purchases of marketable securities of ¥38.5 billion and purchases of noncurrent assets of ¥15.1 billion.

Net cash used in financing activities was ¥22.7 billion, compared with ¥24.6 billion in the previous fiscal year. Principal factors influencing net cash used in financing activities were cash dividends paid for the previous fiscal year-end and payment of interim dividends for the fiscal year under review, amounting in total to ¥21.8 billion.

Note: In the items (1) and (2), amounts less than ¥100 million have been rounded off. Figures for changes in amounts have been calculated using data denominated in ¥100 million units.

3) Cash Flow Related Materials

	FY 2008.12, ended December 31, 2008	FY 2009.12, ended December 31, 2009	FY 2010.12, ended December 31, 2010	FY 2011.12, ended December 31, 2011	FY 2012.12, ended December 31, 2012
Equity ratio (%)	82.6	80.0	88.0	85.6	83.0
Market value equity ratio (%)	196.2	175.2	159.6	129.4	152.9
Interest-bearing debt to cash flows ratio (%)	0.4	0.2	0.3	0.2	0.2
Interest-coverage ratio (times)	517.5	4,620.0	8,214.4	20,032.2	21,734.9

Equity ratio:	Shareholders' equity/total assets
Market value equity ratio:	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 (prior to interest paid and deductions for income taxes paid) in the consolidated statements of cash flows.
4. Interest-bearing debt refers to all debt posted in the consolidated balance sheets upon which interest is paid.
5. The amount of interest paid in the consolidated statements 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

In fiscal year 2013, the Company is scheduled to make the transition to disclosure under the International Financial Reporting Standards (IFRS). As previously announced, the Company will use Core EPS* in calculating its dividend payout ratio beginning in 2013. In announcing the outlook for performance in 2013, the Company will increase its target payout ratio from the previous 40% or higher, and the policy for the distribution of profit will be as follows.

Regarding income distribution, taking account of strategic funding needs and earnings prospects, the Company 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, 2012, are planned to be ¥20 per share as previously forecasted. As a result, total dividends for the year continue to be ¥40 per share, the consolidated dividend payout ratio is 45.2% (an average of 47.8% for the past five years).

For the following fiscal year, ending December 31, 2013, taking into account the new dividend policy and performance forecasts during that fiscal year, the Company expects total estimated dividends of ¥45 per share, including interim dividend payments of ¥22 per share. This estimate assumes a forecast for the dividend payout ratio of 48.6% (in comparison with Core EPS) in 2013. This will bring the three-year dividend payout ratio to 47.8%, based on payout ratios calculated with reference to Core EPS for 2011 and 2012.

*Core EPS is net income per share, attributable to shareholders of the Company, after subtraction, at the Company'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).

(4) Business Risks

The Chugai Group's corporate performance is subject to major impact from a range of possible future events. Below are listed 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 the Company 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 Chugai Group aggressively pursues R&D in Japan and overseas. The Group's development pipeline is well stocked, 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 Chugai 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. 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 Chugai 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 introduced 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

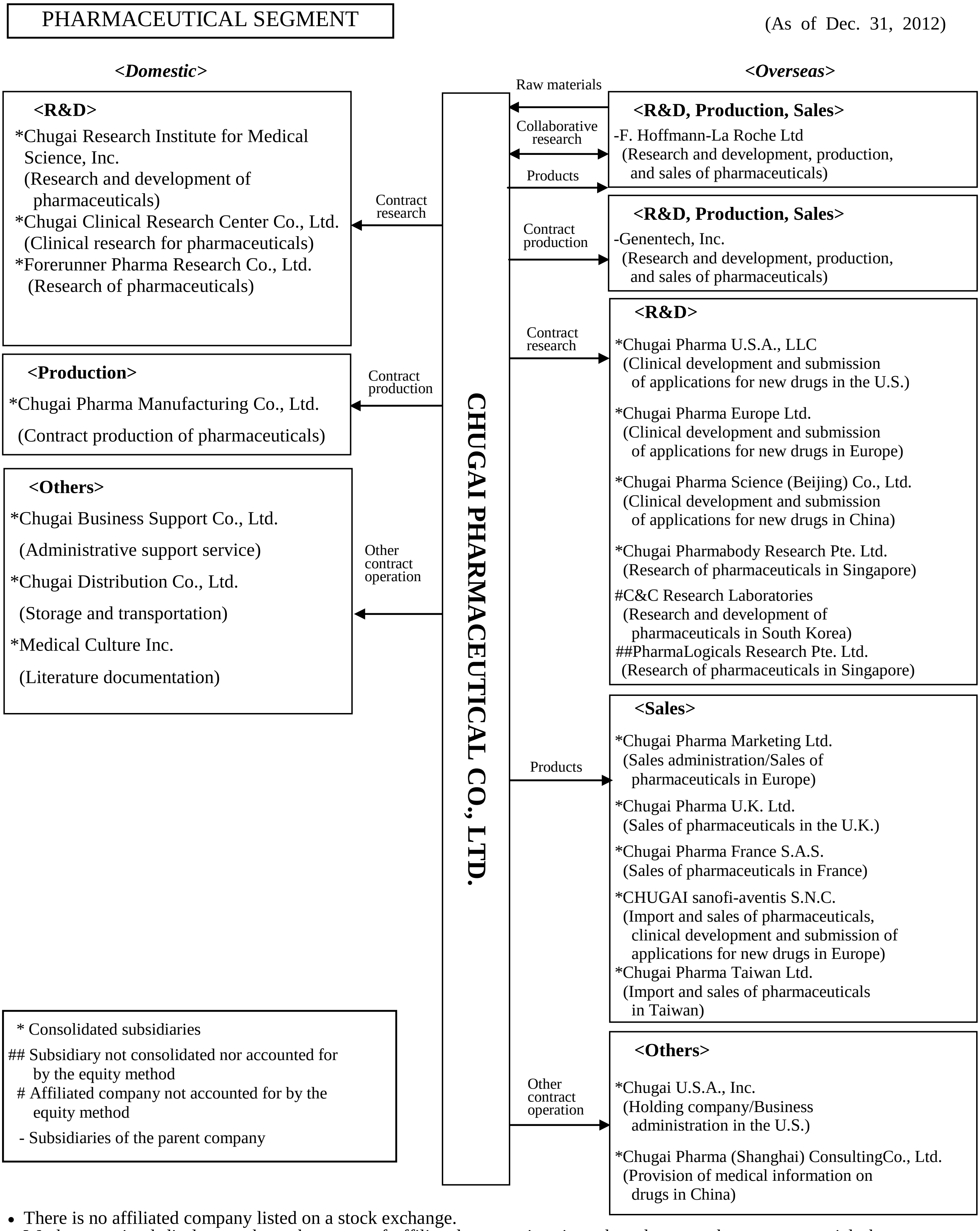
The Chugai Group engages aggressively in international business activities, including sales of pharmaceuticals and R&D activities overseas as well as exporting and importing of bulk pharmaceuticals. In these international business activities, the Group may confront changes in laws and regulations, political 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 Chugai Group

The Group consists of the Company submitting the consolidated financial statements, 19 subsidiaries, one affiliated company, 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.



- There is no affiliated company listed on a stock exchange.
- We have omitted disclosure about the status of affiliated companies since there have not been any material changes since we disclosed the status of affiliated companies in our most- recent report on securities filed on March 28, 2012.

3. Management Principles and Goals

(1) Basic Management Principles

In line with its strategic alliance with the world-leading pharmaceutical company Roche, the Chugai Group has established "dedicating itself to adding exceptional value through the creation 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 by providing 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."

By putting these Basic Management Principles into practice and making continuous efforts to pursue innovation and progressively increase 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 2013 through fiscal 2015, the Chugai Group is moving ahead with measures designed to expeditiously realize its objective of becoming a top pharmaceutical company.

The environment for 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 Chugai 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 Chugai 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 Chugai 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 Chugai 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 Chugai 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.

Please refer to “(3) Basic Profit Distribution Principles and Dividends for the Fiscal Year under Review and the Following Fiscal Year“ on page 6 for the information about Core EPS.

4. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Millions of Yen)

	As of December 31, 2011	As of December 31, 2012
Assets		
Current assets:		
Cash and deposits	107,163	110,935
Trade notes and accounts receivable	110,913	119,995
Marketable securities	60,995	100,993
Merchandise and finished goods	87,240	78,951
Work in process	24	347
Raw materials and supplies	17,719	29,595
Deferred tax assets	22,742	20,213
Other	12,634	14,669
Reserve for doubtful accounts	(3)	(6)
Total current assets	419,429	475,695
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures	120,013	125,253
Accumulated depreciation	(72,167)	(75,903)
Buildings and structures (net)	47,846	49,349
Machinery and vehicles	84,615	88,869
Accumulated depreciation	(68,693)	(73,345)
Machinery and vehicles (net)	15,922	15,524
Furniture and fixtures	41,821	43,906
Accumulated depreciation	(35,587)	(37,227)
Furniture and fixtures (net)	6,234	6,679
Land	10,176	10,148
Construction in progress	2,717	472
Other	61	191
Accumulated depreciation	(23)	(93)
Other (net)	37	97
Total property, plant and equipment	82,935	82,272
Intangible assets:		
Software	327	238
Other	1,633	1,464
Total intangible assets	1,961	1,702
Investments and other assets:		
Investment securities	6,431	6,202
Long-term loans	7	128
Deferred tax assets	14,033	12,821
Other	8,855	9,037
Reserve for doubtful accounts	(172)	(142)
Total investments and other assets	29,156	28,049
Total noncurrent assets	114,053	112,024
Total assets	533,482	587,720

(Millions of Yen)

	As of December 31, 2011	As of December 31, 2012
Liabilities		
Current liabilities:		
Trade notes and accounts payable	17,350	41,725
Accrued payables	7,887	5,020
Income taxes payable	14,156	11,852
Accrued consumption taxes	1,693	3,142
Accrued expenses	18,687	21,213
Reserve for bonuses to employees	5,277	5,851
Reserve for bonuses to directors	186	198
Reserve for sales rebates	1,988	1,598
Provision for environmental measures	28	—
Provision for loss on disaster	65	—
Other	1,501	1,029
Total current liabilities	68,822	91,633
Noncurrent liabilities:		
Deferred tax liabilities	104	115
Reserve for employees’ retirement benefits	2,598	3,048
Reserve for officers’ retirement benefits	729	648
Provision for environmental measures	174	174
Other	1,981	2,026
Total noncurrent liabilities	5,587	6,012
Total liabilities	74,410	97,645
Net assets		
Shareholders’ equity:		
Common stock	72,966	72,966
Additional paid-in capital	92,815	92,815
Retained earnings	339,476	365,964
Treasury stock, at cost	(36,260)	(36,132)
Total shareholders’ equity	468,998	495,614
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	842	1,639
Deferred gains or losses on hedges	—	120
Foreign currency translation adjustments	(12,992)	(9,721)
Total accumulated other comprehensive income	(12,150)	(7,961)
New share warrants	1,015	1,219
Minority interests	1,208	1,202
Total net assets	459,072	490,074
Total liabilities and net assets	533,482	587,720

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

(Millions of Yen)

	FY 2011.12 (Jan. 1, 2011 - Dec. 31, 2011)	FY 2012.12 (Jan. 1, 2012 - Dec. 31, 2012)
Revenues:		
Sales	363,621	375,234
Other operating revenues	9,895	15,985
Total revenues	373,516	391,220
Cost of sales	157,506	167,726
Gross profit	216,010	223,493
Selling, general and administrative expenses:		
Sales promotion expenses	16,003	14,247
Salaries and allowances	31,850	31,316
Reserve for bonuses	3,254	3,516
R&D expenses	55,856	55,107
Retirement benefits	2,390	2,633
Other	44,224	40,258
Total selling, general and administrative expenses	153,580	147,080
Operating income	62,430	76,413
Non-operating income:		
Interest income	380	357
Dividend income	120	121
Gain on foreign exchange	566	—
Life insurance dividend income	341	341
Gain on valuation of derivatives	—	1,336
Other	932	801
Total non-operating income	2,341	2,959
Non-operating expenses:		
Interest expenses	4	4
Loss on retirement of noncurrent assets	658	256
Loss on abandonment of noncurrent assets	191	99
Loss on valuation of derivatives	34	—
Loss on foreign exchange	—	3,196
Other	297	407
Total non-operating expenses	1,186	3,965
Ordinary income	63,585	75,406

(Millions of Yen)

	FY 2011.12 (Jan. 1, 2011 - Dec. 31, 2011)	FY 2012.12 (Jan. 1, 2012 - Dec. 31, 2012)
Extraordinary gains:		
Gain on sales of noncurrent assets	0	2
Subsidy income	—	46
Total extraordinary gains	0	48
Extraordinary losses:		
Loss on sales of noncurrent assets	7	1
Impairment loss	145	116
Loss on disaster	4,723	—
Loss on adjustment for changes of accounting standard for asset retirement obligations	1,002	—
Provision for environmental measures	280	—
Loss on valuation of investment securities	217	—
Restructuring loss	69	10
Loss on valuation of golf club membership	8	—
Loss on sales of investment securities	—	4
Total extraordinary losses	6,453	132
Income before income taxes and minority interests	57,131	75,321
Income taxes—current	22,211	22,942
Income taxes—deferred	(1,355)	3,387
Total income taxes	20,856	26,330
Income before minority interests	36,274	48,991
Minority interests in income	1,039	786
Net income	35,234	48,205

Consolidated Statements of Comprehensive Income

(Millions of Yen)

	FY 2011.12 (Jan. 1, 2011 - Dec. 31, 2011)	FY 2012.12 (Jan. 1, 2012 - Dec. 31, 2012)
Income before minority interests	36,274	48,991
Other comprehensive income		
Valuation difference on available-for-sale securities	(498)	796
Deferred gains or losses on hedges	—	120
Foreign currency translation adjustments	(1,809)	3,408
Total other comprehensive income	(2,307)	4,326
Comprehensive income	33,966	53,317
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	32,995	52,394
Comprehensive income attributable to minority interests	971	923

(3) Consolidated Statements of Changes in Net Assets

(Millions of Yen)

	FY 2011.12 (Jan. 1, 2011 - Dec. 31, 2011)	FY 2012.12 (Jan. 1, 2012 - Dec. 31, 2012)
Shareholders' equity		
Common stock		
Balance as of the end of the previous year	72,966	72,966
Changes during the period		
Net change during the period	—	—
Balance as of the end of the year	72,966	72,966
Additional paid-in capital		
Balance as of the end of the previous year	92,815	92,815
Changes during the period		
Net change during the period	—	—
Balance as of the end of the year	92,815	92,815
Retained earnings		
Balance as of the end of the previous year	327,642	339,476
Changes during the period		
Dividends paid	(23,400)	(21,768)
Net income	35,234	48,205
Deposition of treasury stock	(0)	(51)
Change of scope of consolidation	—	101
Net change during the period	11,834	26,487
Balance as of the end of the year	339,476	365,964
Treasury stock, at cost		
Balance as of the end of the previous year	(36,256)	(36,260)
Changes during the period		
Purchase of treasury stock	(3)	(4)
Deposition of treasury stock	0	132
Net change during the period	(3)	128
Balance as of the end of the year	(36,260)	(36,132)
Total shareholders' equity		
Balance as of the end of the previous year	457,167	468,998
Changes during the period		
Dividends paid	(23,400)	(21,768)
Net income	35,234	48,205
Purchase of treasury stock	(3)	(4)
Deposition of treasury stock	0	81
Change of scope of consolidation	—	101
Net change during the period	11,830	26,616
Balance as of the end of the year	468,998	495,614

(Millions of Yen)

	FY 2011.12 (Jan. 1, 2011 - Dec. 31, 2011)	FY 2012.12 (Jan. 1, 2012 - Dec. 31, 2012)
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities		
Balance as of the end of the previous year	1,341	842
Changes during the period		
Net changes except for shareholders' equity (net)	(498)	796
Net change during the period	(498)	796
Balance as of the end of the year	842	1,639
Deferred gains or losses on hedges		
Balance as of the end of the previous year	—	—
Changes during the period		
Net changes except for shareholders' equity (net)	—	120
Net change during the period	—	120
Balance as of the end of the year	—	120
Foreign currency translation adjustments		
Balance as of the end of the previous year	(11,252)	(12,992)
Changes during the period		
Net changes except for shareholders' equity (net)	(1,740)	3,271
Net change during the period	(1,740)	3,271
Balance as of the end of the year	(12,992)	(9,721)
Total accumulated other comprehensive income		
Balance as of the end of the previous year	(9,911)	(12,150)
Changes during the period		
Net changes except for shareholders' equity (net)	(2,239)	4,188
Net change during the period	(2,239)	4,188
Balance as of the end of the year	(12,150)	(7,961)
New share warrants		
Balance as of the end of the previous year	775	1,015
Changes during the period		
Net changes except for shareholders' equity (net)	240	203
Net change during the period	240	203
Balance as of the end of the year	1,015	1,219
Minority interests in income		
Balance as of the end of the previous year	1,363	1,208
Changes during the period		
Net changes except for shareholders' equity (net)	(154)	(6)
Net change during the period	(154)	(6)
Balance as of the end of the year	1,208	1,202
Total net assets		
Balance as of the end of the previous year	449,394	459,072
Changes during the period		
Dividends paid	(23,400)	(21,768)
Net income	35,234	48,205
Purchase of treasury stock	(3)	(4)
Deposition of treasury stock	0	81
Change of scope of consolidation	—	101
Net changes except for shareholders' equity (net)	(2,152)	4,385
Net change during the period	9,678	31,001
Balance as of the end of the year	459,072	490,074

(4) Consolidated Statements of Cash Flows

(Millions of Yen)

	FY 2011.12 (Jan. 1, 2011 - Dec. 31, 2011)	FY 2012.12 (Jan. 1, 2012 - Dec. 31, 2012)
Cash flows from operating activities:		
Income before income taxes and minority interests	57,131	75,321
Depreciation and amortization	15,900	15,330
Impairment loss	145	116
Increase in reserve for employees’ retirement benefits	244	439
Interest and dividend income	(501)	(479)
Interest expense	4	4
Loss on retirement of noncurrent assets	658	256
Loss (gain) on sales of noncurrent assets	7	(1)
Loss on sales and valuation of investment securities	217	4
Loss on disaster	4,723	—
(Increase) decrease in trade notes and accounts receivable	2,357	(8,886)
(Increase) in inventories	(1,876)	(3,674)
Increase (decrease) in trade notes and accounts payable	(1,949)	24,265
Increase (decrease) in accrued consumption tax	1,925	1,431
Other	2,340	(625)
Subtotal	81,328	103,504
Interest and dividends received	500	440
Interest paid	(4)	(4)
Proceeds from insurance income	2,966	—
Payments for loss on disaster	(3,383)	(1,139)
Income taxes paid	(11,813)	(25,501)
Net cash provided by operating activities	69,593	77,299
Cash flows from investing activities:		
Payment into time deposits	(22,392)	(27,502)
Proceeds from withdrawal of time deposits	19,768	26,485
Purchase of marketable securities	(119,989)	(169,991)
Proceeds from sales of marketable securities	118,700	131,500
Purchase of investment securities	(5)	(159)
Proceeds from sales of investment securities	—	2
Purchases of noncurrent assets	(11,238)	(15,053)
Proceeds from sales of noncurrent assets	12	30
Other	10	(81)
Net cash (used in) investing activities	(15,135)	(54,769)
Cash flows from financing activities:		
Net decrease (increase) in treasury stocks	(3)	41
Cash dividends paid	(23,396)	(21,778)
Cash dividends paid to minority interests	(1,125)	(930)
Other	(25)	(52)
Net cash (used in) financing activities	(24,551)	(22,720)
Effect of exchange rate changes on cash and cash equivalents	(576)	1,121
Net increase in cash and cash equivalents	29,330	931
Cash and cash equivalents at beginning of year	65,143	94,474
Increase in cash and cash equivalents resulting from change of scope of consolidation	—	39
Cash and cash equivalents at end of the period	94,474	95,445

(5) Events or Circumstances that Cast Major Doubt on the Assumption of Continued Operations

None

(6) Changes in Accounting Principles

(Application of "Accounting Standard for Earnings Per Share")

Beginning with the fiscal year ended December 31, 2012, "Accounting Standard for Earnings Per Share" (Accounting Standards Board of Japan (ASBJ) Statement No. 2, revised on June 30, 2010) and "Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4, revised on June 30, 2010) have been applied.

When calculating net income per share for the quarter after adjustment for latent shares, the Company has changed its method for computing the amount that is assumed to be paid into the Company due to the exercise of stock options rights, which require a specified term of service before holders can secure exercise rights, to take account of the amount for services that will be provided to the Company in the future, in the fairly assessed value of the stock options.

Please note that the effects of these accounting changes are discussed in the section of this report entitled "Per Share Information."

(Accounting method for foreign exchange forward contracts related to scheduled foreign currency denominated transactions)

Previously, the Company applied the mark-to-market valuation method for foreign exchange forward contracts related to scheduled foreign currency denominated transactions and reported valuation differences in the consolidated statements of income. However, in view of major fluctuations in foreign exchange rates in recent years and the rise in the Company's transactions denominated in foreign currencies, the Company has made further changes in its risk management regulations regarding the accounting treatment of foreign exchange forward contracts and now reflects the effects of hedge accounting in the consolidated financial statements. To report consolidated income for the period more accurately, beginning with the fiscal year ended December 31, 2012, the Company has applied hedge accounting principles to a portion of foreign exchange forward contracts and adopted deferred hedge treatment.

This change in accounting policy accompanies further changes in the Company's risk management regulations regarding foreign exchange forward contracts beginning with the fiscal year ended December 31, 2012, and it has no effect on the previous fiscal year.

In comparison with the case where this accounting policy has not been applied, operating income through the end of the fiscal year under review was ¥345 million lower, and ordinary income and income before income taxes and minority interests were ¥39 million lower, respectively, than they would have been otherwise.

(Changes in the method of depreciation)

Beginning with the fiscal year ended December 31, 2012, accompanying revisions in the Corporation Tax Act of Japan, the Company and its consolidated subsidiaries in Japan have changed their method of accounting for depreciation of tangible fixed assets other than buildings and structures (excluding equipment and fixtures) that were purchased on or after April 1, 2012, to reflect tax act revisions.

As a result, consolidated operating income, consolidated ordinary income, and consolidated income before income taxes and minority interests were each ¥233 million higher than they would have been in the absence of this change.

Please note that because of the time required to implement these changes in the Company's accounting systems for depreciation, depreciation for second and third quarters of the fiscal year was calculated. The effects on income of applying the method used for the full fiscal year to the statements for the second and third quarters of the fiscal year were not material.

(7) Notes to the Consolidated Financial Statements

Segment Information

(1) Segment Information

For the year ended Dec. 31, 2011 (Jan. 1, 2011 - Dec. 31, 2011) and the year ended Dec. 31, 2012 (Jan. 1, 2012 - Dec. 31, 2012)

As the Chugai Group has been comprised of a single business segment, Pharmaceutical business, the disclosure of segment information has been omitted.

(2) Relative Information

For the year ended Dec. 31, 2011 (Jan. 1, 2011 - Dec. 31, 2011)

1. Information by product and service

(Millions of Yen)

	Avastin (Sales)	Actemra (Sales)	Other	Total
Revenues from external customers	56,367	38,041	279,108	373,516

2. Information by geographical area

1) Revenues

(Millions of Yen)

Japan	Europe	Other	Total
327,874	42,578	3,063	373,516

Note: Revenues are recognized as taking place in the regions where customers are located, and then classified by country and region.

2) Property, plant and equipment

As the value of the property, plant and equipment of the Group that are located in Japan accounts for more than 90% of the Group's total consolidated property, plant and equipment, disclosure of geographical segment information has been omitted.

3. Information on principal customers

(Millions of Yen)

Corporate appellations	Revenue	Relevant company segment
Alfresa Corporation	87,817	Pharmaceuticals
Mediceo Corporation	73,919	Pharmaceuticals
Suzuken Co., Ltd.	44,969	Pharmaceuticals
Toho Pharmaceutical Co., Ltd.	37,917	Pharmaceuticals

<u>*For the year ended Dec. 31, 2012 (Jan. 1, 2012 - Dec. 31, 2012)*</u>

1. Information by product and service

(Millions of Yen)

	Avastin (Sales)	Actemra (Sales)	Other	Total
Revenues from external customers	65,455	42,688	283,075	391,220

2. Information by geographical area

1) Revenues

(Millions of Yen)

Japan	Europe	Other	Total
341,323	46,978	2,917	391,220

Note: Revenues are recognized as taking place in the regions where customers are located, and then classified by country and region.

2) Property, plant and equipment

As the value of the property, plant and equipment of the Group that are located in Japan accounts for more than 90% of the Group’s total consolidated property, plant and equipment, disclosure of geographical segment information has been omitted.

3. Information on principal customers

(Millions of Yen)

Corporate appellations	Revenue	Relevant company segment
Alfresa Corporation	89,953	Pharmaceuticals
Mediceo Corporation	75,378	Pharmaceuticals
Suzuken Co., Ltd.	46,295	Pharmaceuticals
Toho Pharmaceutical Co., Ltd.	40,342	Pharmaceuticals

(3) Information on Impairment Losses on Noncurrent Assets by Reporting Segment

For the year ended Dec. 31, 2011 (Jan. 1, 2011 - Dec. 31, 2011) and the year ended Dec. 31, 2012 (Jan. 1, 2012 - Dec. 31, 2012)

As the Chugai Group has been comprised of a single business segment, Pharmaceutical business, the disclosure of segment information has been omitted.

(4) Information Related to the Amount of Amortization of Goodwill and the Unamortized Amount of Goodwill by Reporting Segment

For the year ended Dec. 31, 2011 (Jan. 1, 2011 - Dec. 31, 2011) and the year ended Dec. 31, 2012 (Jan. 1, 2012 - Dec. 31, 2012)

None

(5) Information on Profit Arising from Negative Goodwill by Reporting Segment

For the year ended Dec. 31, 2011 (Jan. 1, 2011 - Dec. 31, 2011) and the year ended Dec. 31, 2012 (Jan. 1, 2012 - Dec. 31, 2012)

None

Information on Related Parties

For the year ended Dec. 31, 2011 (Jan. 1, 2011 - Dec. 31, 2011)

1. Transactions with related parties

Companies with the same parent as the Company (which is submitting the consolidated financial statements) and subsidiaries of other companies affiliated with the Company

Type of relationship	Name	Address	Capital and investments	Business content or occupation	Rate of ownership of voting (%)	Relationship	Transaction	Amount of transaction (*)	Account	Ending balance (*)
Company with the same parent company	F. Hoffmann-La Roche Ltd	Basel, Switzerland	Swiss francs 150,000,000	Production and sales of drugs	—	Purchase of drug materials, etc.	Purchase of drug materials	75,741	Accounts payable	9,914
							Sales of drugs	25,678	Accounts receivables	6,000
							Sharing of co-development costs (Receipt)	5,334	Accrued receivables	5,311

(*): Millions of yen

Notes: 1. “Amount of transaction” and “Ending balance” are reported net of consumption taxes.

2. Guideline of determination for business conditions, etc.

(1) Business transactions are determined as the same as the general transactions when considering market value.

(2) Sharing of co-development costs is determined based on the license contracts concluded with F. Hoffmann-La Roche Ltd.

2. Notes related to the parent company or material related companies

(1) Information on the parent company

Roche Holding Ltd (Listed on SIX Swiss Exchange)
Roche Finance Ltd. (Unlisted)
Roche Pharmholding B.V. (Unlisted)

Note: The company’s parent company has changed as of December 13, 2011. Roche Finance Ltd. and Roche Pharmholding B.V. are no longer the Company’s parent company.

(2) Summary of material financial information for related companies

None

For the year ended Dec. 31, 2012 (Jan. 1, 2012 - Dec. 31, 2012)

1. Transactions with related parties

Companies with the same parent as the Company (which is submitting the consolidated financial statements) and subsidiaries of other companies affiliated with the Company

Type of relationship	Name	Address	Capital and investments	Business content or occupation	Rate of ownership of voting (%)	Relationship	Transaction	Amount of transaction (*)	Account	Ending balance (*)
Company with the same parent company	F. Hoffmann-La Roche Ltd	Basel, Switzerland	Swiss francs 150,000,000	Production and sales of drugs	—	Purchase of drug materials, etc.	Purchase of drug materials	84,271	Accounts payable	31,959
							Sales of drugs	32,707	Accounts receivable	10,494
							Sharing of co-development costs (Receipt)	4,991	Accrued receivables	5,487
							Sharing of co-development costs (Payment)	5,623	Accrued payables	6,134

(*): Millions of yen

Notes: 1. "Amount of transaction" and "Ending balance" are reported net of consumption taxes.

2. Guideline of determination for business conditions, etc.

(1) Business transactions are determined as the same as the general transactions when considering market value.

(2) Sharing of co-development costs is determined based on the license contracts concluded with F. Hoffmann-La Roche Ltd.

2. Directors and principal shareholders (limited to individual shareholders) of the Company submitting consolidated financial statements

Type of relationship	Name	Address	Capital and investments (*)	Business content or occupation	Rate of ownership of voting (%)	Relationship	Transaction	Amount of transaction (*)	Account	Ending balance (*)
Board member	Osamu Nagayama	—	—	Representative Director, Chairman and CEO	(Held) directly: 0.0%	Exercise of stock options	Exercise of stock options	11	—	—

(*): Millions of yen

Note: This table shows the rights to purchase new shares, which were originally issued as a result of the decisions made at the 92nd General Meeting of Shareholders (held on June 25, 2003) which were exercised during the fiscal year under review. Please note that the amount shown in the "Amount of transaction" column is the number of shares granted as a result of the exercise of stock option rights during the fiscal year times the price paid.

3. Notes related to the parent company or material related companies

(1) Information on the parent company

Roche Holding Ltd (Listed on SIX Swiss Exchange)

(2) Summary of material financial information for related companies

None

Per Share Information

(Yen)

	FY 2011.12 (Jan. 1, 2011 - Dec. 31, 2011)	FY 2012.12 (Jan. 1, 2012 - Dec. 31, 2012)
Net assets per share	839.50	896.02
Net income per share (basic)	64.75	88.58
Net income per share after adjustment for latent stock	64.73	88.54

Note: Basis for calculations of net income per share and net income per share after adjustment for latent stock are as follows:

	FY 2011.12 (Jan. 1, 2011- Dec. 31, 2011)	FY 2012.12 (Jan. 1, 2012- Dec. 31, 2012)
Net income per share		
Net income	¥35,234 million	¥48,205 million
Value not attributed to common stock	— million	— million
Net income attributed to common stock	35,234 million	48,205 million
Average number of outstanding common stock during the period	544,193,122 shares	544,213,366 shares
Net income per share after adjustment for latent stock		
Net income adjustment value	¥— million	¥— million
Increase in number of outstanding common stock	173,818 shares	260,206 shares
(Including new share warrants)	(173,818) shares	(260,206) shares

	FY 2011.12 (Jan. 1, 2011- Dec. 31, 2011)	FY 2012.12 (Jan. 1, 2012- Dec. 31, 2012)
Details of latent shares that were not included in the calculation of net income per share assuming dilution because of the absence of a dilutive effect	Rights to purchase new shares: 8 types Resolution by the General Meeting of Shareholders on June 25, 2003: Number of latent shares: 106,400 shares Number of rights to purchase new shares: 1,064 rights Resolution by the General Meeting of Shareholders on March 25, 2004: Number of latent shares: 206,900 shares Number of rights to purchase new shares: 2,069 rights Resolution by the General Meeting of Shareholders on March 23, 2005: Number of latent shares: 245,200 shares Number of rights to purchase new shares: 2,452 rights Resolution by the General Meeting of Shareholders on March 23, 2006: Number of latent shares: 333,000 shares Number of rights to purchase new shares: 3,330 rights Resolution by the Board of Directors on March 23, 2007: Number of latent shares: 345,000 shares Number of rights to purchase new shares: 3,450 rights Resolution by the Board of Directors on March 25, 2009: Number of latent shares: 328,000 shares Number of rights to purchase new shares: 3,280 rights Resolution by the Board of Directors on April 23, 2010: Number of latent shares: 324,000 shares Number of rights to purchase new shares: 3,240 rights Resolution by the Board of Directors on May 27, 2011: Number of latent shares: 325,000 shares Number of rights to purchase new shares: 3,250 rights	Rights to purchase new shares: 7 types Resolution by the General Meeting of Shareholders on March 25, 2004: Number of latent shares: 206,900 shares Number of rights to purchase new shares: 2,069 rights Resolution by the General Meeting of Shareholders on March 23, 2005: Number of latent shares: 245,200 shares Number of rights to purchase new shares: 2,452 rights Resolution by the General Meeting of Shareholders on March 23, 2006: Number of latent shares: 333,000 shares Number of rights to purchase new shares: 3,330 rights Resolution by the Board of Directors on March 23, 2007: Number of latent shares: 344,000 shares Number of rights to purchase new shares: 3,440 rights Resolution by the Board of Directors on March 25, 2009: Number of latent shares: 327,000 shares Number of rights to purchase new shares: 3,270 rights Resolution by the Board of Directors on April 23, 2010: Number of latent shares: 323,000 shares Number of rights to purchase new shares: 3,230 rights Resolution by the Board of Directors on April 24, 2012: Number of latent shares: 333,000 shares Number of rights to purchase new shares: 3,330 rights

Changes in Accounting Principles

Beginning with the fiscal year ended December 31, 2012, “Accounting Standard for Earnings Per Share” (ASBJ Statement No. 2, revised on June 30, 2010) and “Guidance on Accounting Standard for Earnings Per Share” (ASBJ Guidance No. 4, revised on June 30, 2010) have been applied.

When calculating net income per share after adjustment for latent shares for FY 2012, the Company has changed its method for computing the amount that is assumed to be paid into the Company due to the exercise of stock options rights, which require a specified term of service before holders can secure exercise rights, to take account of the amount for services that will be provided to the Company in the future, in the fairly assessed value of the stock options.

Compared to the case where these accounting standards were not applied, net income per share after adjustment for latent shares in the previous fiscal year amounted to ¥64.72

Material Subsequent Event

None