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**CHUGAI PHARMACEUTICAL CO., LTD.**

A member of the Roche group

## CONSOLIDATED FINANCIAL STATEMENTS (Japan GAAP) (Non-audited) (through the third quarter of fiscal year 2012)

Name of Company: Chugai Pharmaceutical Co., Ltd. October 23, 2012  
 Stock Listing: Tokyo Stock Exchange  
 Security Code No.: 4519 (URL <http://www.chugai-pharm.co.jp/english>)  
 Representative: Osamu Nagayama, Representative Director, Chairman & CEO  
 Contact: Masahiko Uchida, General Manager of Corporate Communications Department  
 Phone: +81-(0) 3-3273-0881  
 Date of Submission of Quarterly Marketable Securities Filings: November 5, 2012  
 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 analysts)

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

### ***1. Consolidated Operating Results through the Third Quarter of FY 2012 (January 1, 2012–September 30, 2012)***

#### **(1) Consolidated Operating Results (cumulative)**

	Revenues	% change	Operating Income	% change	Ordinary Income	% change
First nine months of FY 2012	¥275,408 million	(0.2)	¥48,230 million	(3.6)	¥48,074 million	(5.8)
First nine months of FY 2011	¥276,018 million	(0.0)	¥50,013 million	10.8	¥51,059 million	15.4

	Net Income	% change	Net Income per Share (Basic)	Net Income per Share (Fully Diluted)
First nine months of FY 2012	¥29,841 million	10.0	¥54.83	¥54.81
First nine months of FY 2011	¥27,129 million	(3.3)	¥49.85	¥49.84

*Notes: Comprehensive income through the third quarter ended September 30, 2012: ¥31,053 million (16.7%)*

*Comprehensive income through the third quarter ended September 30, 2011: ¥26,608 million (—%)*

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

#### **(2) Consolidated Financial Condition**

	Total Assets	Net Assets	Equity Ratio
As of Sep. 30, 2012	¥544,103 million	¥467,717 million	85.6%
As of Dec. 31, 2011	¥533,482 million	¥459,072 million	85.6%

*Reference: Shareholders' equity at September 30, 2012: ¥465,624 million*

*Shareholders' equity at December 31, 2011: ¥456,848 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 ending Dec. 2012	—	¥20.00	—		
FY ending Dec. 2012 (Forecast)				¥20.00	¥40.00

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

## 3. Forecast of Consolidated Results for FY 2012 (January 1, 2012–December 31, 2012)

	Revenues	% Change	Operating Income	% Change	Ordinary Income	% Change
Full year	¥418,500 million	12.0	¥80,000 million	28.1	¥80,500 million	26.6

	Net Income	% Change	Net Income per Share (Basic)
Full year	¥49,000 million	39.1	¥90.04

Notes: 1. % change figures for revenues, operating income, ordinary income, and net income are presented in comparison with the same period of the previous fiscal year.

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

Notes:

- (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) Application of special accounting method for preparation of the quarterly consolidated financial statements: None
- (3) 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: None
  - (d) Restatements: None

Note: For further details, please refer to the “2. Other Information” section of the attachment on page 4.

- (4) Number of shares issued (common stock):

(Shares)

- (a) Number of shares at the end of the period (including treasury stock)
- (b) Number of treasury stock at the end of the period
- (c) Average number of shares issued during the period (nine months)

Third quarter of FY 2012	559,685,889	FY 2011	559,685,889
Third quarter of FY 2012	15,463,635	FY 2011	15,494,118
Third quarter of FY 2012	544,206,790	Third quarter of FY 2011	544,193,511

### 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

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 financial results may materially differ from these forecasts due to potential risks and uncertainties.

For the specifics of the above forecasts, please refer to the item “1. Qualitative Information, (3) Qualitative Information Regarding the Forecast for Consolidated Performance” in the attachment on page 3.

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

Teleconference for institutional investors and analysts: October 23, 2012, Tuesday (Japan time)

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**1. Qualitative Information****(1) Qualitative Information Regarding Operating Results (Consolidated)**

(Billions of Yen)

	First nine months of FY 2011.12 (Jan. 1, 2011–Sep. 30, 2011)	First nine months of FY 2012.12 (Jan. 1, 2012–Sep. 30, 2012)	% Change
Revenues	276.0	275.4	(0.2)
Sales (excluding Tamiflu)	261.2	260.4	(0.3)
Cost of sales	115.4	121.0	+4.9
Gross profit	160.7	154.4	(3.9)
SG&A (excl. R&D) expenses	69.4	66.1	(4.8)
R&D expenses	41.2	40.0	(2.9)
Operating income	50.0	48.2	(3.6)
Ordinary income	51.1	48.1	(5.9)
Net income	27.1	29.8	+10.0

Consolidated revenues through the third quarter under review were ¥275.4 billion (a decrease of 0.2% year on year).

Sales, after the exclusion of sales of Tamiflu (an anti-influenza agent), which vary widely from year to year, and other operating revenues amounted to ¥260.4 billion (a decrease of 0.3% year on year). Sales of Tamiflu alone were ¥8.2 billion (an increase of 30.2% year on year), and other operating revenues amounted to ¥6.8 billion (a decrease of 20.0% year on year).

**Domestic Sales (Excluding Tamiflu)**

Domestic sales through the third quarter under review, excluding Tamiflu, amounted to ¥229.9 billion (an increase of 0.9% year on year). Although sales of Epogin (a recombinant human erythropoietin), a major product in the Company's product lineup for many years, decreased, and the National Health Insurance (NHI) reimbursement price revisions had an adverse impact, overall sales increased. This was because of steady growth in the oncology field, including contributions from Avastin (an anti-vascular endothelial growth factor (VEGF) receptor humanized monoclonal antibody, anti-cancer agent) as well as expansion in sales of Edirol (an active vitamin D3 derivative) and Mircera (a long-acting erythropoietin-stimulating agent), both of which were introduced in 2011.

In the oncology field, sales through the third quarter continued to rise and amounted to ¥111.3 billion (an increase of 9.7% year on year). This growth was due to steady expansion in sales of mainstay products, including Avastin, Herceptin (an anti-HER-2-humanized monoclonal antibody and anti-cancer agent), and Tarceva (an epidermal growth factor receptor (EGFR) tyrosine kinase inhibitor, anti-cancer agent). Factors accounting for the double-digit growth in sales of Avastin, despite the application of the re-pricing for market expansion scheme under the 2012 NHI drug price revision (a reduction rate of 8.8%), were the maintenance of a high market share in the treatment of colorectal cancer and its accelerating penetration of the lung cancer and breast cancer treatment market along with the implementation of a more-active market promotion program. On the other hand, sales of Kytril (a 5-HT3 receptor antagonist, antiemetic agent), declined substantially owing to the effects of the emergence of many competing products, including generic products.

In the bone and joint disease field, sales amounted to ¥46.9 billion (a decline of 0.6% year on year). Market penetration of Edirol, a second-generation vitamin D3 derivative launched in April 2011, proceeded steadily owing to the removal of long-term prescription restrictions in April 2012, replacing sales of Alfarol (a calcium bone metabolism stimulator 1 $\alpha$ -OH-D3 derivative). Sales of Evista (an agent for the treatment of osteoporosis) also declined because of more-intense competition. In addition, although sales of Actemra (a humanized anti-human IL-6 receptor monoclonal antibody) continued to show strong volume growth, sales were flat compared to the same period of the previous year as the re-pricing for market expansion scheme was applied under the 2012 NHI drug price revision (a reduction rate of 25.0%).

In the renal diseases field, sales amounted to ¥34.8 billion (a decrease of 5.7% year on year). Factors accounting for this were the substantial decline in sales of Epogin due to the replacement by Mircera, which was launched in July 2011, and increased competition. Gaining understanding of the product characteristics of Mircera is requiring more time than expected and market penetration has lagged.

In the transplant, immunology, and infectious disease fields (excluding Tamiflu), sales were ¥14.8 billion (a decrease of 12.9% year on year). This decline was due to lower sales of Pegasys (a peginterferon- $\alpha$ -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)**

Seasonal sales of Tamiflu through the third quarter amounted to ¥7.9 billion (an increase of 92.7% year on year). Sales for government stockpiles through the third quarter were ¥0.4 billion (a decrease of 81.8% year on year).

#### **Overseas Sales**

Overseas sales amounted to ¥30.5 billion (a decrease of 8.7% year on year). This decline was mainly due to a decrease in sales of Actemra and Neutrogin (a recombinant human granulocyte-colony stimulating factor (G-CSF)) as a result of the appreciation of the yen.

#### **Profit (Loss) Condition**

The gross profit on sales ratio decreased because of the effects of the NHI drug price revisions, shift of product mix, and other factors. In addition, as one-time revenues which were at a relatively high level in the previous fiscal year, within other operating revenues decreased this year, gross profit amounted to ¥154.4 billion (a decrease of 3.9% year on year).

As a result of activities to improve cost performance regarding selling, general and administrative (SG&A) expenses, , SG&A expenses (excluding R&D expenses) were ¥66.1 billion (a decline of 4.8% year on year), and R&D expenses amounted to ¥40.0 billion (a decrease of 2.9% year on year).

As a result, operating income amounted to ¥48.2 billion (a decline of 3.6% year on year), and ordinary income totaled ¥48.1 billion (a decrease of 5.9% year on year). Net income through the third quarter was ¥29.8 billion (an increase of 10.0%), substantially higher than in the same quarter of the previous fiscal year because of the reporting of an extraordinary loss of ¥7.4 billion in connection with the 2011 earthquake.

### **(2) Qualitative Information Regarding Financial Condition (Consolidated)**

#### **Assets, Liabilities, and Net Assets**

At the end of the third quarter under review, total assets on a consolidated basis amounted to ¥544.1 billion, representing an increase of ¥10.6 billion in comparison with the end of the previous fiscal year. The principal factor accounting for this increase was a gain in marketable securities of ¥40.0 billion, which offset a decrease in trade notes and accounts receivable of ¥11.1 billion, a decline in cash and deposits of ¥10.1 billion, and a decrease in merchandise and finished goods of ¥7.2 billion.

Total liabilities on a consolidated basis stood at ¥76.4 billion (an increase of ¥2.0 billion in comparison with the end of the previous fiscal year). Principal factors influencing this change in liabilities were an increase in trade notes and accounts payable of ¥11.8 billion and a decline in income taxes payable of ¥9.6 billion.

Total net assets on a consolidated basis at the end of the quarter were ¥467.7 billion, representing an increase of ¥8.6 billion over the end of the previous fiscal year. The principal factors accounting for this rise were an increase in retained earnings of ¥8.1 billion due to the reporting of net income through the third quarter of ¥29.8 billion, which was partially offset by the payment of dividends from retained earnings of ¥21.8 billion.

As a result, the consolidated shareholders' equity ratio stood at 85.6% at the end of the quarter, the same as at the end of the previous fiscal year.

*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.*

### **(3) Qualitative Information Regarding the Forecast for Consolidated Performance**

The Company has not made any changes in its forecast of consolidated results for the fiscal year ending December 2012 since the announcement regarding the forecast issued on February 1, 2012.

## **2. Other Information**

## **(1) Changes in Accounting Principles, Changes in Accounting Estimates, and Restatements**

### **(Application of “Accounting Standard for Earnings Per Share”)**

Beginning with the first quarter of FY 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.

If these changes in accounting standards had not been applied, the net income per share through the end of the third quarter of the previous fiscal year after adjustment for latent shares would have been ¥49.84 per share.

### **(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 first quarter of FY 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 first quarter of FY 2012, and it has no effect on the third quarter of the previous fiscal year.

In comparison with the case where this accounting policy has not been applied, operating income through the end of the third quarter under review was ¥486 million lower, and ordinary income and income before income taxes and minority interests were ¥236 million higher, respectively, than they would have been otherwise.

**3. Consolidated Financial Statements****(1) Consolidated Balance Sheets**

(Millions of Yen)

	As of December 31, 2011	As of September 30, 2012
<b>Assets</b>		
Current assets		
Cash and deposits	107,163	97,116
Trade notes and accounts receivable	110,913	99,809
Marketable securities	60,995	100,998
Merchandise and finished goods	87,240	79,986
Work in process	24	120
Raw materials and supplies	17,719	21,167
Deferred tax assets	22,742	22,016
Other	12,634	11,788
Reserve for doubtful accounts	(3)	(2)
Total current assets	419,429	433,001
Noncurrent assets		
Property, plant and equipment		
Buildings and structures (net)	47,846	48,995
Other (net)	35,089	33,176
Total property, plant and equipment	82,935	82,172
Intangible assets	1,961	1,673
Investments and other assets		
Investment securities	6,431	5,799
Deferred tax assets	14,033	12,591
Other	8,862	9,028
Reserve for doubtful accounts	(172)	(163)
Total investments and other assets	29,156	27,255
Total noncurrent assets	114,053	111,101
<b>Total assets</b>	<b>533,482</b>	<b>544,103</b>

(Millions of Yen)

	As of December 31, 2011	As of September 30, 2012
<b>Liabilities</b>		
Current liabilities		
Trade notes and accounts payable	17,350	29,177
Income taxes payable	14,156	4,575
Reserve for bonuses to employees	5,277	9,795
Other reserves	2,267	1,653
Other	29,769	25,396
Total current liabilities	68,822	70,598
Noncurrent liabilities		
Reserves	3,502	3,682
Other	2,085	2,105
Total noncurrent liabilities	5,587	5,787
Total liabilities	74,410	76,385
<b>Net assets</b>		
Shareholders' equity		
Common stock	72,966	72,966
Capital surplus	92,815	92,815
Retained earnings	339,476	347,621
Treasury stock, at cost	(36,260)	(36,187)
Total shareholders' equity	468,998	477,216
Accumulated other comprehensive income		
Net unrealized gain or loss on securities	842	1,312
Deferred gains or losses on hedges	—	46
Foreign currency translation adjustments	(12,992)	(12,950)
Total accumulated other comprehensive income	(12,150)	(11,592)
Subscription rights to shares	1,015	1,160
Minority interests	1,208	933
Total net assets	459,072	467,717
<b>Total liabilities and net assets</b>	<b>533,482</b>	<b>544,103</b>



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

(Millions of Yen)

	First nine months of FY 2011 (Jan. 1, 2011 – Sep. 30, 2011)	First nine months of FY 2012 (Jan. 1, 2012 – Sep. 30, 2012)
Revenues		
Sales	267,470	268,608
Other operating revenues	8,548	6,800
Total revenues	276,018	275,408
Cost of sales	115,361	121,041
Gross profit	160,657	154,367
Selling, general and administrative expenses		
Sales promotion expenses	10,172	9,315
Salaries and allowances	20,574	20,274
Reserve for bonuses	5,836	5,870
R&D expenses	41,235	40,045
Retirement benefits	1,837	2,000
Other	30,986	28,631
Total selling, general and administrative expenses	110,644	106,137
Operating income	50,013	48,230
Non-operating income		
Interest income	277	277
Gain on foreign exchange	1,833	—
Life insurance dividend income	341	341
Gain on valuation of derivatives	—	24
Other	831	576
Total non-operating income	3,284	1,220
Non-operating expenses		
Interest expenses	3	2
Loss on valuation of derivatives	1,629	—
Loss on retirement of noncurrent assets	213	140
Loss on abandonment of noncurrent assets	164	59
Loss on foreign exchange	—	801
Other	226	373
Total non-operating expenses	2,237	1,376
Ordinary income	51,059	48,074
Extraordinary gain		
Gain on sales of noncurrent assets	0	1
Subsidy income	—	38
Total extraordinary gain	0	40
Extraordinary loss		
Loss on sales of noncurrent assets	0	—
Impairment loss	117	32
Loss on disaster	7,401	—
Loss on adjustment for changes of accounting standard for asset retirement obligations	1,018	—
Provision for environmental measures	287	—
Loss on valuation of investment securities	216	—
Restructuring loss	49	10
Loss on valuation of golf club membership	6	—
Loss on sales of investment securities	—	4
Total extraordinary loss	9,096	47
Income before income taxes and minority interests	41,962	48,068

(Millions of Yen)

	First nine months of FY 2011 (Jan. 1, 2011 – Sep. 30, 2011)	First nine months of FY 2012 (Jan. 1, 2012 – Sep. 30, 2012)
Income taxes–current	17,490	15,666
Income taxes–deferred	(3,429)	1,911
Total income taxes	14,060	17,577
Income before minority interests	27,902	30,490
Minority interests in income	773	648
Net income	27,129	29,841

**Consolidated Statements of Comprehensive Income**

(Millions of Yen)

	First nine months of FY 2011 (Jan. 1, 2011 – Sep. 30, 2011)	First nine months of FY 2012 (Jan. 1, 2012 – Sep. 30, 2012)
Income before minority interests	27,902	30,490
Other comprehensive income		
Net unrealized gain or loss on securities	(268)	469
Deferred gains or losses on hedges	—	46
Foreign currency translation adjustments	(1,025)	47
Total other comprehensive income	(1,293)	563
Comprehensive income	26,608	31,053
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of the parent	25,864	30,399
Comprehensive income attributable to minority interests	744	654

**(3) Notes Regarding Assumptions as a Going Concern**

None

**(4) Notes Regarding Major Changes in Shareholders' Equity**

None