


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



**CHUGAI PHARMACEUTICAL CO., LTD.**

 A member of the Roche group

## CONSOLIDATED FINANCIAL STATEMENTS (Non-audited) (for the first quarter of fiscal year 2012)

|  |   |                |
|--|---|----------------|
| Name of Company:   | Chugai Pharmaceutical Co., Ltd.   | April 24, 2012 |
| Stock Listing:   | Tokyo Stock Exchange  |                |
| Security Code No.:   | 4519 (URL <a href="http://www.chugai-pharm.co.jp/english">http://www.chugai-pharm.co.jp/english</a> ) |                |
| Representative:  | Osamu Nagayama, Representative Director, Chairman & CEO   |                |
| Contact:   | Nobuyuki Chiba, General Manager of Corporate Communications Department                                |                |
| Phone:   | +81-(0) 3-3273-0881   |                |
| Date of Submission of Quarterly Marketable Securities Filings:           | April 27, 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.)*

### **I. Consolidated Operating Results for the First Quarter of FY 2012 (January 1, 2012–March 31, 2012)**

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

|                               | Revenues        | % change | Operating Income | % change | Ordinary Income | % change |
|-------------------------------|-----------------|----------|------------------|----------|-----------------|----------|
| First three months of FY 2012 | ¥90,256 million | 5.3      | ¥16,615 million  | 6.8      | ¥16,304 million | (2.3)    |
| First three months of FY 2011 | ¥85,724 million | (1.6)    | ¥15,564 million  | 40.5     | ¥16,685 million | 38.4     |

|                               | Net Income     | % change | Net Income per Share<br>(Basic) | Net Income per Share<br>(Fully Diluted) |
|-------------------------------|----------------|----------|---------------------------------|---|
| First three months of FY 2012 | ¥9,342 million | 87.3     | ¥17.17                          | ¥17.16                                  |
| First three months of FY 2011 | ¥4,989 million | (36.5)   | ¥9.17                           | ¥9.17                                   |

*Notes: Comprehensive income for the first quarter ended March 31, 2012: ¥12,831 million 91.6 %*

*Comprehensive income for the first quarter ended March 31, 2011: ¥6,695 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 Mar. 31, 2012 | ¥532,473 million | ¥460,758 million | 86.1%        |
| As of Dec. 31, 2011 | ¥533,482 million | ¥459,072 million | 85.6%        |

*Reference: Shareholders' equity at March 31, 2012: ¥458,578 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            | —                          |                       |                      |                    |        |
| FY ending Dec. 2012 (Forecast) |                            | ¥20.00                | —                    | ¥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 |
|------------------|------------------|----------|------------------|----------|-----------------|----------|
| First six months | ¥195,500 million | 7.5      | ¥36,500 million  | 3.7      | ¥37,000 million | 2.3      |
| 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) |
|------------------|-----------------|----------|------------------------------|
| First six months | ¥22,000 million | 28.7     | ¥40.43                       |
| 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

## 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) 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) | First quarter of FY 2012 | 559,685,889 | FY 2011                  | 559,685,889 |
| (b) Number of treasury stock at the end of the period                    | First quarter of FY 2012 | 15,494,706  | FY 2011                  | 15,494,118  |
| (c) Average number of shares issued during the period (three months)     | First quarter of FY 2012 | 544,191,612 | First quarter of FY 2011 | 544,194,138 |

Notes:

### Items related to the status of the implementation of quarterly reviews

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

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

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 4.

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: April 24, 2012, Tuesday (Japan time)

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

(Billions of Yen)

|                           | First three months of FY 2011.12<br>(Jan. 1, 2011–Mar. 31, 2011) | First three months of FY 2012.12<br>(Jan. 1, 2012–Mar. 31, 2012) | % Change |
|---------------------------|--|--|----------|
| Revenues                  | 85.7   | 90.3   | +5.4     |
| Sales (excluding Tamiflu) | 76.2   | 79.0   | +3.7     |
| Cost of sales             | 35.1   | 39.6   | +12.8    |
| Gross profit              | 50.6   | 50.6   | +0.0     |
| SG&A (excl. R&D) expenses | 22.0   | 21.0   | (4.5)    |
| R&D expenses              | 13.0   | 13.1   | +0.8     |
| Operating income          | 15.6   | 16.6   | +6.4     |
| Ordinary income           | 16.7   | 16.3   | (2.4)    |
| Net income                | 5.0  | 9.3  | +86.0    |

Consolidated revenues through the first quarter under review were ¥90.3 billion (an increase of 5.4% year on year).

Sales, after exclusion of sales of Tamiflu (an anti-influenza agent), which vary widely from year to year, and other operating revenues, amounted to ¥79.0 billion (an increase of 3.7% year on year). Sales of Tamiflu alone were ¥7.8 billion (an increase of 85.7% year on year) and other operating revenues amounted to ¥3.5 billion (a decrease of 34.0% year on year).

**Domestic Sales (Excluding Tamiflu)**

Domestic sales for the quarter under review, excluding Tamiflu, amounted to ¥68.1 billion (a decrease of 3.0% year on year). Sales in the oncology field, where growth is steady, and sales of Edirol (an active vitamin D<sub>3</sub> derivative) and Mircera (a long-acting erythropoietin-stimulating agent), both of which were introduced in 2011, contributed to sales growth. However, the double-digit decline in sales of the transplant, immunology, and infectious disease fields owing to the shrinkage in the interferon market, the decrease in sales of Epogin (a recombinant human erythropoietin), a major product in the Company's lineup of renal disease treatment for many years, and the effects of the NHI reimbursement price revision scheduled for April offset the sales growth and resulted in an overall decline in domestic sales.

In the oncology field, sales for the quarter were ¥32.7 billion (an increase of 5.5%). This growth was due to continued expansion in sales of mainstay products, including Avastin (an anti-vascular endothelial growth factor (VEGF) receptor humanized monoclonal antibody, anti-cancer agent), Herceptin (an anti-HER-2-humanized monoclonal antibody, anti-cancer agent), and Rituxan (an anti-CD20 monoclonal antibody, anti-cancer agent). Factors accounting for the growth in sales of Avastin are the maintenance of a high market share in the treatment of colorectal cancer, its accelerating penetration of the lung cancer treatment market along with the implementation of a more active market promotion program, and this drug's receipt of an expanded indication for the treatment of breast cancer in September 2011. On the other hand, sales of Kytril (a 5-HT<sub>3</sub> receptor antagonist, antiemetic agent) decreased owing to the effects of the emergence of many competing products, including generic products.

In the bone and joint disease field, sales declined and amounted to ¥13.6 billion (a decrease of 2.9% year on year). Although sales of Actemra (a humanized anti-human IL-6 receptor monoclonal antibody) are continuing to expand, growth in sales of Evista (an agent for the treatment of osteoporosis) weakened because of more intense competition. In addition, market penetration of Edirol (a second-generation vitamin D<sub>3</sub> derivative), which was launched in April 2011, has been slower than anticipated.

In the renal diseases field, sales amounted to ¥10.3 billion (a decline of 9.6% year on year). Sales of Epogin (a recombinant human erythropoietin) declined substantially because of the shift to usage of Mircera, which was launched in July 2011, and increased competition. Sales of Mircera have been adversely affected by competition, and market penetration has not proceeded as initially planned.

In the transplant, immunology, and infectious disease fields (excluding Tamiflu), sales were ¥4.5 billion (a decline of 18.2%). This decrease 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.

**Tamiflu (an Anti-influenza Agent)**

Sales of Tamiflu for ordinary use through the first quarter amounted to ¥7.5 billion (an increase of 102.7% year on year), due to an increase in the number of influenza cases compared with the previous year. Sales to government stockpiles through the first quarter were ¥0.4 billion (a decrease of 20.0% year on year).

**Overseas Sales**

Overseas sales amounted to ¥10.9 billion (an increase of 84.7% year on year). Factors accounting for this rise were the increase in sales of Actemra to ¥6.8 billion (an approximate fivefold increase year on year) because of the delays in exports of Actemra to Roche in the previous year following the Great East Japan Earthquake and the steady rise in sales to the more than 70 countries where this drug is marketed.

**Profit (Loss) Condition**

Although gross profit on sales rose because of the positive effects of growth in overseas sales, other operating revenues declined and offset this increase, resulting in gross profit of ¥50.6 billion (an increase of 0.0% year on year).

Among selling, general and administrative (SG&A) expenses, as a result of activities to improve cost performance, SG&A expenses (excluding R&D expenses) were ¥21.0 billion (a decrease of 4.5% year on year). R&D expenses totaled ¥13.1 billion (an increase of 0.8% year on year).

As a result, operating income amounted to ¥16.6 billion (an increase of 6.4% year on year), and ordinary income was ¥16.3 billion (a decrease of 2.4% year on year). Net income for the quarter amounted to ¥9.3 billion (an increase of 86.0% year on year), and comprehensive income was ¥12.8 billion (a gain of 91.0% year on year). These increases in income were the result of the reporting of extraordinary losses of ¥6.1 billion in the same quarter of the previous fiscal year in connection with the earthquake.

*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) Qualitative Information Regarding Financial Condition (Consolidated)****Assets, Liabilities, and Net Assets**

At the end of the first quarter under review, total assets on a consolidated basis amounted to ¥532.5 billion, representing a decrease of ¥1.0 billion in comparison with the end of the previous fiscal year. Principal factors resulting in this decrease were a rise in cash and deposits of ¥15.9 billion, which was offset by a decline in trade notes and accounts receivable of ¥16.3 billion.

Total liabilities on a consolidated basis stood at ¥71.7 billion, representing a decrease of ¥2.7 billion compared with the end of the previous fiscal year. Principal factors resulting in this decrease were an increase in trade notes and accounts payable of ¥6.5 billion and a decline in income taxes payable of ¥8.1 billion.

Total net assets on a consolidated basis at the end of the quarter were ¥460.8 billion, representing an increase of ¥1.7 billion compared with the end of the previous fiscal year. The principal factor resulting in this increase was an increase in foreign currency translation adjustments of ¥2.1 billion, which was partially offset by a decrease in retained earnings of ¥1.5 billion due to the reporting of net income of ¥9.3 billion for the quarter, after the payment of dividends from retained earnings of ¥10.9 billion.

As a result, the consolidated shareholders' equity ratio stood at 86.1% at the end of the quarter, compared with 85.6% 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 under review, “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 first quarter of the previous fiscal year after adjustment for latent shares would have been ¥9.17 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 under review, 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 under review, and it has no effect on the first quarter of the previous fiscal year.

In comparison with the case where this accounting policy has not been applied, ordinary income and income before income taxes and minority interests through the end of the first quarter under review were ¥484 million lower than they would have been otherwise.

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

(Millions of Yen)

|                                     | As of December 31, 2011 | As of March 31, 2012 |
|-------------------------------------|-------------------------|----------------------|
| <b>Assets</b>                       |                         |                      |
| Current assets                      |                         |                      |
| Cash and deposits                   | 107,163                 | 123,107              |
| Trade notes and accounts receivable | 110,913                 | 94,633               |
| Marketable securities               | 60,995                  | 66,993               |
| Merchandise and finished goods      | 87,240                  | 84,042               |
| Work in process                     | 24                      | 176                  |
| Raw materials and supplies          | 17,719                  | 17,028               |
| Deferred tax assets                 | 22,742                  | 21,980               |
| Other                               | 12,634                  | 13,127               |
| Reserve for doubtful accounts       | (3)                     | (2)                  |
| Total current assets                | 419,429                 | 421,085              |
| Noncurrent assets                   |                         |                      |
| Property, plant and equipment       |                         |                      |
| Buildings and structures (net)      | 47,846                  | 46,909               |
| Other (net)                         | 35,089                  | 34,039               |
| Total property, plant and equipment | 82,935                  | 80,949               |
| Intangible assets                   | 1,961                   | 1,913                |
| Investments and other assets        |                         |                      |
| Investment securities               | 6,431                   | 6,553                |
| Deferred tax assets                 | 14,033                  | 13,115               |
| Other                               | 8,862                   | 9,027                |
| Reserve for doubtful accounts       | (172)                   | (171)                |
| Total investments and other assets  | 29,156                  | 28,525               |
| Total noncurrent assets             | 114,053                 | 111,388              |
| <b>Total assets</b>                 | <b>533,482</b>          | <b>532,473</b>       |

(Millions of Yen)

|  | As of December 31, 2011 | As of March 31, 2012 |
|--|-------------------------|----------------------|
| <b>Liabilities</b>                           |                         |                      |
| Current liabilities                          |                         |                      |
| Trade notes and accounts payable             | 17,350                  | 23,907               |
| Income taxes payable                         | 14,156                  | 6,078                |
| Reserve for bonuses to employees             | 5,277                   | 9,328                |
| Other reserves                               | 2,267                   | 2,061                |
| Other  | 29,769                  | 24,827               |
| Total current liabilities                    | 68,822                  | 66,203               |
| Noncurrent liabilities                       |                         |                      |
| Reserves                                     | 3,502                   | 3,330                |
| Other  | 2,085                   | 2,182                |
| Total noncurrent liabilities                 | 5,587                   | 5,512                |
| Total liabilities                            | 74,410                  | 71,715               |
| <b>Net assets</b>                            |                         |                      |
| Shareholders' equity                         |                         |                      |
| Common stock                                 | 72,966                  | 72,966               |
| Capital surplus                              | 92,815                  | 92,815               |
| Retained earnings                            | 339,476                 | 338,037              |
| Treasury stock, at cost                      | (36,260)                | (36,261)             |
| Total shareholders' equity                   | 468,998                 | 467,558              |
| Accumulated other comprehensive income       |                         |                      |
| Net unrealized gain or loss on securities    | 842                     | 1,611                |
| Deferred gains or losses on hedges           | —                       | 288                  |
| Foreign currency translation adjustments     | (12,992)                | (10,879)             |
| Total accumulated other comprehensive income | (12,150)                | (8,979)              |
| Subscription rights to shares                | 1,015                   | 1,081                |
| Minority interests                           | 1,208                   | 1,097                |
| Total net assets                             | 459,072                 | 460,758              |
| <b>Total liabilities and net assets</b>      | <b>533,482</b>          | <b>532,473</b>       |



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

(Millions of Yen)

|  | First three months of FY 2011<br>(Jan. 1, 2011 – Mar. 31, 2011) | First three months of FY 2012<br>(Jan. 1, 2012 – Mar. 31, 2012) |
|--|---|---|
| Revenues   |   |   |
| Sales  | 80,389  | 86,776  |
| Other operating revenues   | 5,334   | 3,480   |
| Total revenues   | 85,724  | 90,256  |
| Cost of sales  | 35,107  | 39,611  |
| Gross profit   | 50,616  | 50,645  |
| Selling, general and administrative expenses   |   |   |
| Sales promotion expenses   | 2,926   | 2,766   |
| Salaries and allowances  | 6,147   | 6,139   |
| Reserve for bonuses  | 2,424   | 2,626   |
| R&D expenses   | 13,029  | 13,055  |
| Retirement benefits  | 602   | 631   |
| Other  | 9,922   | 8,810   |
| Total selling, general and administrative expenses                                     | 35,052  | 34,030  |
| Operating income   | 15,564  | 16,615  |
| Non-operating income   |   |   |
| Interest income  | 83  | 117   |
| Gain on valuation of derivatives   | 1,283   | 398   |
| Life insurance dividend income   | 341   | 341   |
| Other  | 427   | 286   |
| Total non-operating income   | 2,136   | 1,144   |
| Non-operating expenses   |   |   |
| Interest expenses  | 0   | 0   |
| Loss on foreign exchange   | 895   | 1,363   |
| Loss on retirement of noncurrent assets  | 13  | 16  |
| Loss on abandonment of noncurrent assets   | 10  | 16  |
| Other  | 96  | 59  |
| Total non-operating expenses   | 1,015   | 1,456   |
| Ordinary income  | 16,685  | 16,304  |
| Extraordinary gain   |   |   |
| Gain on sales of noncurrent assets   | —   | 1   |
| Subsidy income   | —   | 38  |
| Total extraordinary gain   | —   | 40  |
| Extraordinary loss   |   |   |
| Loss on sales of noncurrent assets   | 0   | —   |
| Impairment loss  | 1   | 0   |
| Loss on disaster   | 6,068   | —   |
| Loss on adjustment for changes of accounting standard for asset retirement obligations | 1,018   | —   |
| Total extraordinary loss   | 7,088   | 0   |
| Income before income taxes and minority interests                                      | 9,596   | 16,343  |
| Income taxes—current   | 6,085   | 5,623   |
| Income taxes—deferred  | (1,684)   | 1,175   |
| Total income taxes   | 4,400   | 6,799   |
| Income before minority interests   | 5,195   | 9,544   |
| Minority interests in income   | 206   | 201   |
| Net income   | 4,989   | 9,342   |

**Consolidated Statements of Comprehensive Income**

(Millions of Yen)

|   | First three months of FY 2011.12<br>(Jan. 1, 2011 – Mar. 31, 2011) | First three months of FY 2012.12<br>(Jan. 1, 2012 – Mar. 31, 2012) |
|---|--|--|
| Income before minority interests                          | 5,195  | 9,544  |
| Other comprehensive income                                |  |  |
| Net unrealized gain or loss on securities                 | (338)  | 768  |
| Deferred gains or losses on hedges                        | —  | 288  |
| Foreign currency translation adjustments                  | 1,838  | 2,229  |
| Total other comprehensive income                          | 1,499  | 3,287  |
| Comprehensive income                                      | 6,695  | 12,831   |
| (Comprehensive income attributable to)                    |  |  |
| Comprehensive income attributable to owners of the parent | 6,396  | 12,513   |
| Comprehensive income attributable to minority interests   | 299  | 317  |

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

None

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

None