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 fiscal year 2010.12 ended December 31, 2010)

February 2, 2011

Name of Company: **Chugai Pharmaceutical Co., Ltd.**
Address of the Head Office: 1-1, Nihonbashi-Muromachi 2-Chome, Chuo-ku, Tokyo 103-8324, Japan
Stock Listing: Tokyo Stock Exchange, First Section
Security Code No.: 4519
(URL http://www.chugai-pharm.co.jp/english)
Representative: Mr. Osamu Nagayama, President and CEO, Chairman of the Board of Directors
Contact: Mr. Nobuyuki Chiba, General Manager of Corporate Communications Department
Phone: +81-(0) 3-3273-0881
Date of General Meeting of Shareholders: March 24, 2011
Date of Submission of Marketable Securities Filings: March 24, 2011
Date on which Dividend Payments to Commence: March 25, 2011

1. Consolidated Operating Results for the FY 2010.12 Ended December 31, 2010

(1) Results of operations

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

	Revenues	% Change	Operating Income	% Change	Recurring Profit	% Change
FY ended Dec. 2010	¥379,509 million	(11.5)	¥66,238 million	(19.8)	¥65,088 million	(28.0)
FY ended Dec. 2009	¥428,947 million	31.2	¥82,612 million	60.2	¥90,395 million	57.9

	Net Income	% Change	Net Income per Share (Basic)	Net Income per Share (Fully Diluted)
FY ended Dec. 2010	¥41,433 million	(26.8)	¥76.14	¥76.12
FY ended Dec. 2009	¥56,634 million	44.2	¥104.00	¥103.98

	Ratio of Net Income to Shareholders' Equity	Ratio of Recurring Profit to Total Assets	Ratio of Operating Income to Revenues
FY ended Dec. 2010	9.4%	12.4%	17.5%
FY ended Dec. 2009	13.7%	17.7%	19.3%

Notes: *Equity-method earnings for the year ended December 31, 2010: ¥— million*
Equity-method earnings for the year ended December 31, 2009: ¥— million

(2) Financial conditions

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
As of Dec. 31, 2010	¥508,016 million	¥449,394 million	88.0%	¥821.87
As of Dec. 31, 2009	¥540,549 million	¥434,686 million	80.0%	¥794.51

Notes: *Shareholders' equity at December 31, 2010: ¥447,256 million*
Shareholders' equity at December 31, 2009: ¥432,361 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. 2010	¥15,572 million	¥(20,192) million	¥(23,054) million	¥65,143 million
FY ended Dec. 2009	¥66,461 million	¥(20,261) million	¥(22,251) million	¥94,478 million

2. Dividends

	Dividends per Share				
	End of First Quarter	End of Second Quarter	End of Third Quarter	End of Fiscal Year	Total
FY ended Dec. 2009	—	¥17.00	—	¥23.00	¥40.00
FY ended Dec. 2010	—	¥17.00	—	¥23.00	¥40.00
FY ending Dec. 2011 (Forecast)	—	¥20.00	—	¥20.00	¥40.00

	Total Dividends (Annual)	Dividend Ratio (Consolidated)	Ratio of Dividends to Net Assets (Consolidated)
FY ended Dec. 2009	¥21,778 million	38.5%	5.3%
FY ended Dec. 2010	¥21,767 million	52.5%	4.9%
FY ending Dec. 2011 (Forecast)		51.2%	

Note: Please note that year-end dividends per share for the fiscal year ended December 31, 2009 include a special dividend of ¥6 per share.

3. Consolidated Forecasts for the Year Ending December 31, 2011 (January 1, 2011 - December 31, 2011)

	Revenues	% Change	Operating Income	% Change	Recurring Profit	% Change
Second Quarter (YTD)	¥190,000 million	4.2	¥34,000 million	23.4	¥34,500 million	31.9
FY 2011	¥403,000 million	6.2	¥75,000 million	13.2	¥75,500 million	16.0

	Net Income	% Change	Net Income per Share (Basic)
Second Quarter (YTD)	¥17,000 million	3.8	¥31.24
FY 2011	¥42,500 million	2.6	¥78.10

4. Others

(1) Changes in the state of material subsidiaries during the period (changes regarding specific subsidiaries attendant with change in scope of consolidation): None

(2) Changes in principles, procedures, and presentation methods, etc., related to the consolidated financial statements (Changes in material items that form the basis for the preparation and presentation of the consolidated financial statements)

(a) Changes related to revisions in accounting principles: None

(b) Changes aside from those in (a) above: None

(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, 2010: 559,685,889

Fiscal year ended December 31, 2009: 559,685,889

(b) Number of treasury shares at the end of the period:

Fiscal year ended December 31, 2010: 15,491,466

Fiscal year ended December 31, 2009: 15,497,079

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 30.

(Additional Information)

Non-Consolidated Operating Results for the FY 2010.12 Ended December 31, 2010

(1) Non-consolidated results of operations

	Revenues	% Change	Operating Income	% Change	Recurring Profit	% Change
FY ended Dec. 2010	¥367,478 million	(11.5)	¥57,605 million	(20.8)	¥57,786 million	(29.3)
FY ended Dec. 2009	¥415,277 million	33.3	¥72,753 million	96.2	¥81,739 million	104.0

	Net Income	% Change	Net Income per Share (Basic)	Net Income per Share (Fully Diluted)
FY ended Dec. 2010	¥37,254 million	(29.4)	¥68.46	¥68.44
FY ended Dec. 2009	¥52,738 million	79.3	¥96.85	¥96.83

(2) Non-consolidated financial conditions

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
As of Dec. 31, 2010	¥476,219 million	¥423,368 million	88.7%	¥776.55
As of Dec. 31, 2009	¥509,590 million	¥407,929 million	79.9%	¥748.62

Notes: Shareholders' equity for the year ended December 31, 2010: ¥422,593 million
Shareholders' equity for the year ended December 31, 2009: ¥407,392 million

Note: 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. For details, please see pages 3-5 for "Business Performance, 1. Analysis Concerning Business Performance."

Business Performance

1. Analysis Concerning Business Performance

(1) Overview of Fiscal Year 2010.12 ended December 31, 2010

a) Summary of Business Activities

During the period under review, despite the trial introduction in April 2010 of a new pharmaceutical pricing system aimed at creation, etc., of innovative pharmaceuticals, the operating environment surrounding the pharmaceutical industry became even more challenging due to continued government policies in Japan to reduce medical costs, including the promotion of generic medicines, the increasing strictness of new drug approval tests worldwide, and other factors.

Operating within this business climate, we are endeavoring to engage in aggressive product research and development (R&D) activities to achieve the continued development and acquisition of innovative new drugs. As a company owning many innovative pharmaceuticals, we are engaging in marketing campaigns and other activities based on sound ethical and scientific principles that promote appropriate use of as well as consumer confidence in these drugs. As a result of these activities, consolidated revenues for the fiscal year amounted to ¥379.5 billion, operating income was ¥66.2 billion, recurring profit amounted to ¥65.1 billion, and net income was ¥41.4 billion.

Consolidated Financial Highlights

(Billions of Yen)

	FY 2009.12 (Jan. 1, 2009–Dec. 31, 2009)	FY 2010.12 (Jan. 1, 2010–Dec. 31, 2010)	% Change
Revenues	428.9	379.5	(11.5)
Sales (excluding Tamiflu)	342.9	357.4	+4.2
Cost of sales	192.9	162.4	(15.8)
Gross profit	236.1	217.1	(8.0)
SG&A (excl. R&D) expenses	98.2	96.2	(2.0)
R&D expenses	55.3	54.7	(1.1)
Operating income	82.6	66.2	(19.9)
Recurring profit	90.4	65.1	(28.0)
Net income	56.6	41.4	(26.9)

Revenues

Consolidated revenues for the fiscal year under review were ¥379.5 billion (a decrease of 11.5% year on year).

Sales of anti-influenza Tamiflu, which vary widely from year to year, amounted to ¥18.2 billion (a decrease of 76.1% year on year). After the exclusion of sales from Tamiflu and other operating revenues, which amounted to ¥3.9 billion (a decrease of 60.2% year on year), sales amounted to ¥357.4 billion (an increase of 4.2% year on year) after absorbing the impact of a National Health Insurance (NHI) reimbursement price revision.

Domestic Sales (Excluding Tamiflu)

In the oncology field, sales rose substantially and amounted to ¥141.2 billion (an increase of 14.1% year on year). Although sales of Herceptin (an anti-HER-2-humanized monoclonal antibody and anti-cancer agent), which was subject to recalculation of the NHI reimbursement price, and sales of Kytril (a 5-HT 3 receptor antagonist antiemetic agent), which were affected by the emergence of many generic products, both declined, overall growth in sales in this field was the result of further steady penetration into the market of the Company's major products. These included further market penetration of Avastin (an anti-vascular endothelial growth factor (VEGF) receptor humanized monoclonal antibody and anti-cancer agent) in first-line and second-line treatments.

In the bone and joint diseases field, sales continued to expand and were ¥62.6 billion (an increase of 8.7% year on year). This was due to further expansion in market share of Actemra (a humanized anti-human IL-6 receptor monoclonal antibody), which received an additional indication in April 2008 for the treatment of rheumatoid arthritis and other indications.

In the renal diseases field, sales amounted to ¥57.4 billion (a decline of 5.9% year on year). This decline was due to lower sales of Epogin (a recombinant human erythropoietin) as a result of the NHI reimbursement price revision and more-intense competition.

In the transplant, immunology, and infectious disease field (excluding Tamiflu), sales were ¥25.8 billion (a decline of 1.5% year on year). Although Pegasys (a peginterferon-α-2a) and Copegus (an anti-viral agent used for the treatment of chronic hepatitis C in combination with Pegasys) came into wider use and steadily gained market share, this was outweighed by the impact of the NHI reimbursement price revision and a decline in the market.

Tamiflu Anti-Viral Influenza Agent

Sales of Tamiflu for ordinary use amounted to ¥1.6 billion (a decrease of 95.6% year on year). This decline was due to the early subsiding of the number of cases of the new strain of influenza during the 2009/2010 winter season. In addition, through the end of 2010, the 2010/2011 season influenza had not begun. Sales to government stockpiles amounted to ¥16.6 billion (a decline of 58.5%).

Overseas Sales

Overseas sales amounted to ¥33.0 billion (a decline of 1.8% year on year). This was due to a major decrease in sales of Neutrogin, a recombinant human granulocyte-colony stimulating factor (G-CSF), owing to the emergence of follow-on biologics and currency fluctuations. However, export of Actemra (European product name: RoActemra), which is currently being sold in more than 50 countries around the world, to F. Hoffman-La Roche Ltd (Headquarters: Switzerland; hereinafter, Roche) increased following the receipt of approval in January from the U.S. Food and Drug Administration and commencement of marketing in the same month.

b) Financial Results

Owing to the substantial decline in sales of Tamiflu, the Company’s gross profit amounted ¥217.1 billion (a decrease of 8.0% 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 ¥96.2 billion (a decline of 2.0% year on year). R&D expenses totaled ¥54.7 billion (a decrease of 1.1% year on year).

As a result, operating income amounted to ¥66.2 billion (a decline of 19.9% year on year). In addition, because of a deterioration in net gain (loss) on foreign exchange, recurring profit amounted to ¥65.1 billion (a decrease of 28.0% year on year), and net income was ¥41.4 billion (a decline of 26.9% 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	367.5	379.5	1.03
Operating income	57.6	66.2	1.15
Recurring profit	57.8	65.1	1.13
Net income	37.3	41.4	1.11

c) R&D Activities

In Japan and abroad, Chugai is actively engaged in prescription pharmaceutical R&D activities.

Specifically, the Company is working to develop innovative products with global applications, focusing on the oncology, bone and joint, and renal disease field. In Japan, Chugai’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 and Chugai Pharma Europe Ltd. are engaged in clinical development activities in the United States and Europe, respectively.

In the fiscal year under review, R&D expenses totaled ¥54.7 billion.

(2) Outlook for the Next Fiscal Year

a) Forecast Assumptions

In preparing this performance outlook, we have assumed exchange rates of ¥85/CHF, ¥110/EUR, ¥85/USD, and ¥131/GBP. We have also assumed that 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. Please note that we are assuming that the statutory tax rate will be reduced five percentage points from the fiscal year beginning April 1, 2011, according to FY2011 Tax Reform (Main Points).

b) Outlook for the Fiscal Year

Revenues

Our outlook for sales of Tamiflu is ¥12.2 billion (a decline of 33.0% year on year), including ¥4.4 billion in orders for government stockpiles.

Domestic sales, excluding Tamiflu, are expected to show steady expansion to ¥340.8 billion (an increase of 5.1% year on year) as sales of oncology drugs, including Avastin, as well as sales of Actemra continue to grow as in the previous fiscal year, and we launch Edirol, a drug for osteoporosis (active vitamin D_3 derivative). Regarding overseas sales, we are forecasting sales of ¥38.7 billion (an increase of 17.3% year on year) as a result of growth in exports of Actemra which we co-promote with Roche. We are also forecasting other operating revenues of ¥11.3 billion (an increase of 2.9 times year on year) because of increases in milestone revenues as well as co-promotion and royalty income from Roche in connection with Actemra.

Operating Income/Recurring Profit/Net Income

As a consequence of this growth in revenues, gross profit is forecast to rise to ¥235.2 billion (an increase of 8.3% year on year).

R&D expenses and other SG&A expenses are expected to increase reflecting increased activities to promote the proper use of new products and products with extended indications, and progress in development themes. However, as the growth in gross profit is expected to outweigh the growth in expenses, operating income for the fiscal year is forecast to be ¥75.0 billion (an increase of 13.3% year on year). In addition, because of the reporting of a loss on foreign exchange in the previous fiscal year, recurring profit for the fiscal year will expand by 16.0%, a higher margin of increase than that of operating income. After taking account of the application of the Accounting Standard for Asset Retirement Obligations and a temporary deterioration in the effective tax rate accompanying tax reform, net income will amount to ¥42.5 billion (an increase of 2.7% year on year).

(Billions of Yen)	Outlook for FY 2011	% Change
Revenues	403.0	+6.2
Sales excluding Tamiflu	379.5	+6.2
Operating income	75.0	+13.3
Recurring profit	75.5	+16.0
Net income	42.5	+2.7

Note: The forecasts outlined above are based on information available at the time these forecasts were formulated, and we regard these forecasts as reasonable. The aforementioned forecasts include latent risks and uncertainties, and actual results and performance could vary significantly from the forecasts because of trends in influenza infection and other factors.

Please note that, 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 ¥508.0 billion, representing a decrease of ¥32.5 billion from the end of the previous fiscal year. Principal factors accounting for this decline were a decrease of ¥30.8 billion in cash and deposits as well as a decline of ¥8.2 billion in trade notes and accounts receivable, which were partially offset by a rise of ¥17.7 billion in merchandise and finished goods.

Total liabilities stood at ¥58.6 billion, representing a decrease of ¥47.3 billion from the end of the previous fiscal year. Principal factors accounting for this decline were a decrease in income taxes payable of ¥18.4 billion, a decline of ¥14.8 billion in trade notes and accounts payable, and a decrease in accrued expenses of ¥6.7 billion. Net working capital (equivalent to current assets minus current liabilities) at the end of the fiscal year amounted to ¥332.0 billion.

Total net assets were ¥449.4 billion at the end of the fiscal year, ¥14.7 billion higher than at the end of the previous fiscal year. The principal factors accounting for this increase were net income of ¥41.4 billion, a rise in retained earnings of ¥19.6 billion, after the payment of dividends from retained earnings of ¥21.8 billion, and a decrease in foreign currency translation adjustments of ¥4.5 billion.

(2) Cash Flows

Cash and cash equivalents at the end of the fiscal year under review amounted to ¥65.1 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 ¥15.6 billion, compared with ¥66.5 billion in the previous fiscal year. Principal factors influencing net cash from operating activities were income before income taxes and minority interests of ¥65.7 billion, income taxes paid of ¥38.9 billion, depreciation and amortization of ¥18.0 billion, a decrease in trade notes and accounts payable of ¥14.7 billion, and an increase in inventories of ¥12.7 billion.

Net cash used in investing activities was ¥20.2 billion, compared with ¥20.3 billion in the previous fiscal year. Principal factors influencing cash used in investing activities were net purchases of noncurrent assets of ¥13.5 billion and net purchases of marketable and investment securities of ¥5.9 billion.

Net cash used in financing activities was ¥23.1 billion, compared with ¥22.3 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, which included a special dividend of ¥6 per share, and payment of interim cash dividends, 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 2006.12 ended December 31, 2006	FY 2007.12 ended December 31, 2007	FY 2008.12 ended December 31, 2008	FY 2009.12 ended December 31, 2009	FY 2010.12 ended December 31, 2010
Equity ratio (%)	84.3	83.5	82.6	80.0	88.0
Market value equity ratio (%)	294.4	189.9	196.2	175.2	159.6
Interest-bearing debt to cash flows ratio (%)	—	1.0	0.4	0.2	0.3
Interest-coverage ratio (times)	283.0	461.9	517.5	4,620.0	8,214.4

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

* All of the figures in the aforementioned indices were calculated on a consolidated basis.
* 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).
* Cash flows were shown as an operating cash flow (prior to interest paid and income taxes paid deductions) in the consolidated statements of cash flows.
* Interest-bearing debt refers to all debt posted in the consolidated balance sheets upon which interest is paid.
* 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

With regard to income distribution, we aim to stabilize the return of profit for all shareholders. Taking due account of strategic funding needs and earnings prospects, we aim for a consolidated dividend payout ratio of 40% or more on average.

In addition, internal reserves will be used to fund R&D activities in Japan and around the world as well as for making capital investments related to new products to further enhance corporate value.

Note that year-end regular dividends for the fiscal year ended December 31, 2010, are ¥23 per share. As a result, total dividends paid during the year continue to be ¥40 per share, and the consolidated dividend payout ratio is 52.5% (an average of 44.1% for the past five years).

For the following fiscal year ending December 31, 2011, we expect to pay total dividends of ¥40 per share the same as in fiscal 2010, including ¥20 for the interim period, and the consolidated dividend payout ratio will be 51.2% (an average of 45.6% for the most recent five years).

4. Business Risks

Chugai's corporate performance is subject to major impact from a range of possible future events. Below, we list what we consider the principal sources of risk to the development of our business. We recognize the possibility of these risk events actually occurring, and have 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 Development

With the goal of becoming a top Japanese pharmaceutical company capable of continuously delivering innovative new medicines, Chugai aggressively pursues R&D in Japan and overseas. Our development pipeline is well stocked, especially in the fields of oncology, bone and joint diseases, and renal diseases. However, bringing all of them smoothly through to the market from the R&D stages may not be possible, and we expect to have to abandon development in some cases. When such a situation occurs, there is a possibility of major impact on our 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 Company faces fierce competition from pharmaceutical companies in Japan and overseas. The Company's business performance and financial position may be significantly affected by changes in product environments caused by the sale of competing products and genetic products and also by changes in contracts concluded by the Company for the marketing agreement 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, advances in science and technology and years of careful post-marketing monitoring of pharmaceutical product use mean that side effects are discovered in a good number of drugs. In cases where unexpected side effects occur after marketing, there is a risk of significant impact on our business performance and financial position.

(4) Reform of Japan's medical 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 reform. The Company's business performance and financial position could be significantly affected by future developments in medical system reform, including the NHI drug price reform.

(5) Intellectual Property (IP) Rights

The Company 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 of our infringing on third-party intellectual property rights without being aware of the fact. Major disputes related to intellectual property rights relating to our business could have major impact on our business performance and financial position.

(6) Strategic Alliance with Roche

In line with its strategic alliance with Roche, the Company is the only pharmaceutical partner of Roche in the Japanese market and has introduced many products and projects from Roche. In the event that our strategic alliance with Roche is changed for some reason, such circumstances could have a major impact on the Company's business performance and financial position.

(7) International Business Activities

The Company engages aggressively in international business activities with the aim of providing a continuous flow of innovative new medicines domestically and internationally. These activities include sales of pharmaceuticals and R&D activities overseas as well as exporting and importing of bulk pharmaceuticals. In these international business activities, the Company 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 Company's business performance and financial position.

Outline of Chugai Group

The Group consists of the Company submitting the consolidated financial statements, 17 subsidiaries, one affiliated company, and one subsidiary of the parent company. The major businesses conducted by the Group and how companies in the Group are positioned in relation to those businesses are summarized in the diagram below.

PHARMACEUTICAL SEGMENT

(As of Dec. 31, 2010)

CHUGAI PHARMACEUTICAL CO., LTD.

<Domestic>

<R&D> (Contract research)

*Chugai Research Institute for Medical Science, Inc.
(Research and development of pharmaceuticals)
*Chugai Clinical Research Center Co., Ltd.
(Clinical research for pharmaceuticals)
##Forerunner Pharma Research Co., Ltd.
(Research of pharmaceuticals)

<Production> (Contract production)

*Chugai Pharma Manufacturing Co., Ltd.
(Contract production of pharmaceuticals)

<Others> (Other contract operation)

*Chugai Business Support Co., Ltd.
(Administrative support service)
*Chugai Distribution Co., Ltd.
(Storage and transportation)
*Medical Culture Inc.
(Literature documentation)

<Overseas>

<R&D, Production, Sales> (Raw materials; Collaborative research)

-F. Hoffmann-La Roche Ltd
(Research and development, production and sales of pharmaceuticals)

<R&D> (Contract research)

*Chugai Pharma U.S.A., LLC
(Clinical development and submission of applications for new drugs in the U.S.)
*Chugai Pharma Europe Ltd.
(Clinical development and submission of applications for new drugs in Europe)
#C&C Research Laboratories
(Research and development of pharmaceuticals in Korea)
##PharmaLogicals Research Pte. Ltd.
(Research of pharmaceuticals in Singapore)

<Sales> (Products)

*Chugai Pharma Marketing Ltd.
(Sales administration/Sales of pharmaceuticals in Europe)
*Chugai Pharma U.K. Ltd.
(Sales of pharmaceuticals in the U.K.)
*Chugai Pharma France S.A.S.
(Sales of pharmaceuticals in France)
*CHUGAI sanofi-aventis S.N.C.
(Import and sales of pharmaceuticals, clinical development and submission of applications for new drugs in Europe)
*Chugai Pharma Taiwan Ltd.
(Import and sales of pharmaceuticals in Taiwan)

<Others> (Other contract operation)

*Chugai U.S.A., Inc.
(Holding company/ Business administration in the U.S.)
*Chugai Pharma (Shanghai) Consulting Co., Ltd.
(Provision of medical information on drugs in China)

* Consolidated subsidiaries
\## Subsidiaries not consolidated nor accounted for by the equity method
\# Affiliated company not accounted for by the equity method
\- Subsidiary of the parent company

- 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 25, 2010.

Management Principles and Goals

1. Basic Management Principles

In line with its strategic alliance with the world-leading pharmaceutical company Roche, the Company 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 we work to achieve these goals, we will carry out our business activities in line with our core values of "putting patients and customers first" and "committing to the highest ethical and moral standards as befits a company involved in the healthcare industry."

We believe that putting these Basic Management Principles into practice and raising the quality of all our business activities are the best ways to boost the corporate value of the Chugai Group and meet the expectations of customers, shareholders, and other stakeholders, and we will redouble our efforts to become a top pharmaceutical company.

2. Target Management Indices

Under the Medium-Term Business Plan "Sunrise 2012," which covers the period from fiscal 2008 through fiscal 2012, the Company has set targets for the fiscal 2012, of ¥460 billion in consolidated revenues and ¥80 billion in consolidated operating income. Under this plan, we are planning to create a strong base for future growth by building on our core of existing major products, including Epogin, Neutrogin, and other drugs, and expanding other major drug groups, including Actemra, Avastin, Tarceva, Xeloda, Pegasys, Copegus, and others. Thus far, we have marketed Actemra, Avastin, and other drugs and increased their market penetration and, thereby, made major contributions to profitability. Going forward, we want to substantially strengthen our foundation for growth, and, by building on this base, steadily increase profitability to achieve top-ranking, high growth rates among Japan's pharmaceutical companies.

3. Medium-Term Business Strategy

As a tightly focused prescription pharmaceutical company, we are concentrating on reinforcing our unique foundation in R&D that is driven by the most-advanced technologies. At the same time, our efforts to build a top-caliber competitive franchise in Japan by working with its strategic partner Roche to enhance our clinical development pipeline and product lineup are moving forward.

Chugai's Medium-Term Business Plan "Sunrise 2012" aims to enhance and expand the Company's competitive advantage by leveraging its strengths and close collaborative relationship with Roche as well as to further expand business through the development and marketing of innovative medical products in Japan and overseas.

In addition, we regard achieving the objectives of our Medium-Term Business Plan "Sunrise 2012" as points along the way to becoming a top Japanese pharmaceutical company by the latter half of the second decade of the 21st century. When we say "top pharmaceutical company," we mean that each staff member will have an awareness and the sense of responsibility appropriate for being a member of a leading company, and, by conducting substantive business operations from a global perspective, provide each of our stakeholders with a high level of satisfaction and become an enterprise that receives the active support and confidence of its stakeholders. To this end, in our strategic fields, including oncology and renal disease, where we have gained leading market shares, and the bone and joint disease field, where growth is continuing driven by sales of Actemra, it will be essential for us to make high-quality contributions. In addition, to maintain the quality of our corporate activities in a manner appropriate for a top pharmaceutical company, we will actively work to maintain high standards of internal controls, corporate ethics, and compliance as well as conduct activities that preserve the natural environment and contribute to the community.

4. Future Tasks

To attain the goal of becoming a top Japanese pharmaceutical company, Chugai aims to dramatically bolster the competitiveness of its R&D, manufacturing, marketing, and sales operations as well as to achieve a high rate of growth. We have identified (1) continued development and acquisition of innovative new medicines, (2) the maximization of product value, and (3) overseas expansion as key tasks.

(1) Continued Development and Acquisition of Innovative New Medicines

The Company has worked to create innovative medical products through research into biopharmaceuticals and antibody drugs, which is one of the strengths of the Company, and also by leveraging our alliance with Roche to search for new small-molecular drugs.

Going forward, we intend to turn our strengths to advantage in creating innovative medicines and further improving our technical standards through measures including the strengthening of networks with academic institutions, venture companies, and other pioneering companies. In addition, we will work toward the further development of our product pipeline by aggressively introducing promising development candidates from Roche.

(2) The Maximization of Product Value

Under its alliance with Roche, Chugai has built a strong position in the domestic market, especially in the oncology and renal disease fields. Going forward, Chugai will further strengthen its strategic marketing efforts and pursue an integrated approach to meeting the needs of the medical community, from the early stages of R&D through the post-launch of products, as it works to maximize product value and further increase its presence in such priority fields as oncology.

(3) Overseas Expansion

For accelerating the Company’s future growth, overseas expansion becomes the key challenge. Regarding Actemra, the Company’s own innovative medicine, we received approval for this medicine from the U.S. Food and Drug Administration in January 2010, and it is currently being sold in more than 50 countries around the world, including Japan, the United States, and Europe.

Going forward, the Company will work to develop its position in overseas markets through the continuing development and introduction of such innovative new medicines as Actemra.

Consolidated Balance Sheets

(Millions of Yen)

	As of December 31, 2009	As of December 31, 2010
Assets		
I Current assets:		
Cash and deposits	106,978	76,212
Trade notes and accounts receivable	121,607	113,391
Marketable securities	52,157	59,699
Merchandise and finished goods	71,699	89,447
Work in process	10	20
Raw materials and supplies	20,932	15,417
Deferred tax assets	21,058	19,926
Other	16,893	12,427
Reserve for doubtful accounts	(35)	(5)
Total current assets	411,302	386,537
II Noncurrent assets:		
1. Property, plant and equipment:		
Buildings and structures	124,161	125,873
Accumulated depreciation	(70,733)	(75,589)
Buildings and structures (net)	53,428	50,284
Machinery and vehicles	83,745	87,198
Accumulated depreciation	(61,717)	(68,004)
Machinery and vehicles (net)	22,028	19,193
Furniture and fixtures	37,875	40,313
Accumulated depreciation	(31,107)	(33,773)
Furniture and fixtures (net)	6,767	6,539
Land	9,893	9,893
Construction in progress	1,529	2,010
Other	19	45
Accumulated depreciation	(3)	(13)
Other (net)	16	32
Total property, plant and equipment	93,663	87,954
2. Intangible assets:		
Software	1,053	639
Other	2,190	1,723
Total intangible assets	3,244	2,362
3. Investments and other assets:		
Investment securities	9,657	7,587
Long-term loans	32	19
Deferred tax assets	14,593	14,939
Other	8,273	8,802
Reserve for doubtful accounts	(219)	(186)
Total investments and other assets	32,338	31,161
Total noncurrent assets	129,246	121,478
Total assets	540,549	508,016

(Millions of Yen)

	As of December 31, 2009	As of December 31, 2010
Liabilities		
I Current liabilities:		
Trade notes and accounts payable	34,263	19,489
Accrued payables	6,599	5,933
Income taxes payable	22,142	3,679
Accrued consumption taxes	4,164	524
Accrued expenses	22,893	16,226
Reserve for bonuses to employees	5,731	4,588
Reserve for bonuses to directors	174	216
Reserve for sales rebates	3,044	2,434
Other	1,468	1,488
Total current liabilities	100,482	54,580
II Noncurrent liabilities:		
Reserve for employees' retirement benefits	2,709	2,596
Reserve for officers' retirement benefits	761	729
Other	1,908	716
Total noncurrent liabilities	5,380	4,041
Total liabilities	105,862	58,621
Net assets		
I Shareholders' equity:		
1. Common stock	72,966	72,966
2. Additional paid-in capital	92,815	92,815
3. Retained earnings	307,984	327,642
4. Treasury stock, at cost	(36,274)	(36,256)
Total shareholders' equity	437,492	457,167
II Valuation and translation adjustments:		
1. Net unrealized gain on securities	1,636	1,341
2. Foreign currency translation adjustments	(6,767)	(11,252)
Total valuation and translation adjustments	(5,131)	(9,911)
III New share warrants	536	775
IV Minority interests	1,788	1,363
Total net assets	434,686	449,394
Total liabilities and net assets	540,549	508,016

Consolidated Statements of Income

(Millions of Yen)

	FY 2009.12 (Jan. 1, 2009 - Dec. 31, 2009)	FY 2010.12 (Jan. 1, 2010 - Dec. 31, 2010)
I Revenues:		
Sales	419,105	375,559
Other operating revenues	9,841	3,949
Total revenues	428,947	379,509
II Cost of sales:	192,851	162,417
Gross profit	236,095	217,091
III Selling, general and administrative expenses:		
Sales promotion expenses	16,739	15,902
Salaries and allowances	30,480	32,189
Reserve for bonuses	3,423	2,721
R&D expenses	55,315	54,702
Retirement benefits	2,753	2,703
Other	44,770	42,633
Total selling, general and administrative expenses	153,482	150,853
Operating income	82,612	66,238
IV Non-operating income:		
Interest income	643	320
Dividend income	109	128
Gain on valuation of derivatives	7,327	—
Gain on foreign exchange	—	877
Other	1,339	1,065
Total non-operating income	9,420	2,393
V Non-operating expenses:		
Interest expenses	20	4
Loss on foreign exchange	1,026	—
Loss on retirement of noncurrent assets	211	209
Loss on valuation of derivatives	—	2,762
Other	379	566
Total non-operating expenses	1,638	3,542
Recurring profit	90,395	65,088
VI Extraordinary gain:		
Gain on sales of noncurrent assets	264	18
Gain on extinguishment of tie-in shares	25	—
Restructuring and liquidation gains	—	480
Gain on sales of investment securities	—	95
Subsidies received	—	50
Total extraordinary gain	289	644
VII Extraordinary loss:		
Loss on sales of noncurrent assets	0	0
Impairment loss	26	41
Restructuring loss	1,228	—
Loss on valuation of investment securities	12	1
Loss on sales of investment securities	—	2
Total extraordinary loss	1,268	46
Income before income taxes and minority interests	89,416	65,686
Income taxes—current	32,989	22,129
Income taxes—deferred	(1,806)	966
Total income taxes	31,183	23,096
Minority interests	1,598	1,157
Net income	56,634	41,433

Consolidated Statements of Changes in Net Assets

(Millions of Yen)

	FY 2009.12 (Jan. 1, 2009 - Dec. 31, 2009)	FY 2010.12 (Jan. 1, 2010 - Dec. 31, 2010)
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	271,008	307,984
Effect of changes in accounting policies applied to foreign subsidiaries	(26)	—
Changes during the period		
Dividends paid	(19,613)	(21,767)
Net income	56,634	41,433
Deposition of treasury stocks	(18)	(8)
Net change during the period	37,002	19,657
Balance as of the end of the year	307,984	327,642
Treasury stock, at cost		
Balance as of the end of the previous year	(35,168)	(36,274)
Changes during the period		
Purchase of treasury stocks	(1,161)	(9)
Deposition of treasury stocks	55	27
Net change during the period	(1,106)	17
Balance as of the end of the year	(36,274)	(36,256)
Total shareholders' equity		
Balance as of the end of the previous year	401,622	437,492
Effect of changes in accounting policies applied to foreign subsidiaries	(26)	—
Changes during the period		
Dividends paid	(19,613)	(21,767)
Net income	56,634	41,433
Purchase of treasury stocks	(1,161)	(9)
Deposition of treasury stocks	36	19
Net change during the period	35,896	19,674
Balance as of the end of the year	437,492	457,167

(Millions of Yen)

	FY 2009.12 (Jan. 1, 2009 - Dec. 31, 2009)	FY 2010.12 (Jan. 1, 2010 - Dec. 31, 2010)
Valuation and translation adjustments		
Net unrealized gain on securities		
Balance as of the end of the previous year	1,354	1,636
Changes during the period		
Net changes except for shareholders' equity	281	(295)
Net change during the period	281	(295)
Balance as of the end of the year	1,636	1,341
Foreign currency translation adjustments		
Balance as of the end of the previous year	(7,889)	(6,767)
Changes during the period		
Net changes except for shareholders' equity	1,121	(4,485)
Net change during the period	1,121	(4,485)
Balance as of the end of the year	(6,767)	(11,252)
Total valuation and translation adjustments		
Balance as of the end of the previous year	(6,534)	(5,131)
Changes during the period		
Net changes except for shareholders' equity	1,403	(4,780)
Net change during the period	1,403	(4,780)
Balance as of the end of the year	(5,131)	(9,911)
New share warrants		
Balance as of the end of the previous year	326	536
Changes during the period		
Net changes except for shareholders' equity	210	238
Net change during the period	210	238
Balance as of the end of the year	536	775
Minority interests		
Balance as of the end of the previous year	1,651	1,788
Effect of changes in accounting policies applied to foreign subsidiaries	(11)	—
Changes during the period		
Net changes except for shareholders' equity	148	(425)
Net change during the period	148	(425)
Balance as of the end of the year	1,788	1,363
Total net assets		
Balance as of the end of the previous year	397,066	434,686
Effect of changes in accounting policies applied to foreign subsidiaries	(37)	—
Changes during the period		
Dividends paid	(19,613)	(21,767)
Net income	56,634	41,433
Purchase of treasury stocks	(1,161)	(9)
Deposition of treasury stocks	36	19
Net changes except for shareholders' equity	1,761	(4,966)
Net change during the period	37,657	14,708
Balance as of the end of the year	434,686	449,394

Consolidated Statements of Cash Flows

(Millions of Yen)

		FY 2009.12 (Jan. 1, 2009 - Dec. 31, 2009)	FY 2010.12 (Jan. 1, 2010 - Dec. 31, 2010)
I	Cash flows from operating activities:		
	Income before income taxes and minority interests	89,416	65,686
	Depreciation and amortization	19,505	17,982
	Impairment loss	26	41
	Increase (decrease) in reserve for employees' retirement benefits	599	(106)
	Interest and dividend income	(753)	(449)
	Interest expense	20	4
	Loss on retirement of noncurrent assets	211	209
	(Gain) on sales of noncurrent assets	(263)	(17)
	Loss (gain) on sales and valuation of investment securities	12	(90)
	(Increase) decrease in trade notes and accounts receivable	(12,965)	7,896
	(Increase) in inventories	(13,484)	(12,715)
	Increase (decrease) in trade notes and accounts payable	5,345	(14,676)
	Increase (decrease) in accrued consumption tax	4,447	(3,802)
	Other	(2,293)	(5,947)
	Subtotal	89,824	54,012
	Interest and dividends received	736	432
	Interest paid	(19)	(6)
	Income taxes paid	(24,080)	(38,865)
	Net cash provided by operating activities	66,461	15,572
II	Cash flows from investing activities:		
	Payment into time deposits	(23,398)	(23,363)
	Proceeds from withdrawal of time deposits	11,234	22,511
	Purchase of marketable securities	(118,151)	(125,383)
	Proceeds from sales of marketable securities	126,400	117,900
	Purchase of investment securities	(630)	(5)
	Proceeds from sales of investment securities	—	1,612
	Purchases of noncurrent assets	(16,068)	(13,565)
	Proceeds from sales of noncurrent assets	330	88
	Other	23	11
	Net cash (used in) investing activities	(20,261)	(20,192)
III	Cash flows from financing activities:		
	Net (increase) in treasury stocks	(1,125)	(9)
	Cash dividends paid	(19,619)	(21,759)
	Cash dividends paid to minority interests	(1,502)	(1,276)
	Other	(4)	(9)
	Net cash (used in) financing activities	(22,251)	(23,054)
IV	Effect of exchange rate changes on cash and cash equivalents	(128)	(1,659)
V	Net increase (decrease) in cash and cash equivalents	23,819	(29,334)
VI	Cash and cash equivalents at beginning of year	70,652	94,478
VII	Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	6	—
VIII	Cash and cash equivalents at end of the period	94,478	65,143

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

None

Basis of Preparing Consolidated Financial Statements

FY 2009.12 (Jan. 1, 2009 - Dec. 31, 2009)	FY 2010.12 (Jan. 1, 2010 - Dec. 31, 2010)
1. Scope of consolidation (1) Number of consolidated subsidiaries: 15 companies Major subsidiaries: Chugai Pharma Marketing Ltd. Chugai Pharma Manufacturing Co., Ltd. (2) Number of non-consolidated subsidiaries: 2 companies Forerunner Pharma Research Co., Ltd., and PharmaLogicals Research Pte. Ltd. have been excluded from the scope of consolidation, because they had little value in their materiality.	1. Scope of consolidation (1) Number of consolidated subsidiaries: 15 companies Same as in the left. (2) Number of non-consolidated subsidiaries: 2 companies Same as in the left.
2. Application of equity method (1) Number of non-consolidated subsidiaries and affiliates accounted for by the equity method: None (2) Companies to which the equity method has not been applied: Subsidiaries: Forerunner Pharma Research Co., Ltd., and PharmaLogicals Research Pte. Ltd. Affiliate: C&C Research Laboratories The effect of total equity in net income and retained earnings of these companies was not deemed to be material, and the investment in these companies was accounted for at original purchase cost rather than by the equity method.	2. Application of equity method (1) Number of non-consolidated subsidiaries and affiliates accounted for by the equity method: Same as in the left. (2) Companies to which the equity method has not been applied: Same as in the left.
3. Treatment for the difference in fiscal period The closing date of all subsidiaries is in agreement with the Company's closing date.	3. Treatment for the difference in fiscal period Same as in the left.
4. Significant accounting policies (1) Basis and method for valuation of significant assets a. Financial assets Held-to-maturity securities: Held-to-maturity securities are stated by the amortized cost method (in equal amounts over a specified time period). Other securities: - Securities with market value are stated at fair value at the closing date for the fiscal year, and changes in fair value are recorded as a separate component of shareholders' equity at an amount net of tax, and the moving-average method is used to calculate the original cost. - Securities without market value are stated at cost determined by the moving-average method. b. Basis of valuation of derivatives: Derivatives are revalued by the market-value method. c. Inventories Inventories held for normal sales purposes -Inventories are stated at cost determined principally by the gross average method. (The amount on the balance sheets was calculated by the method of reducing book value as a result of a decline of profitability.)	4. Significant accounting policies (1) Basis and method for valuation of significant assets a. Financial assets Same as in the left. b. Basis of valuation of derivatives: Same as in the left. c. Inventories Same as in the left.

FY 2009.12 (Jan. 1, 2009 - Dec. 31, 2009)	FY 2010.12 (Jan. 1, 2010 - Dec. 31, 2010)
(2) Method of depreciation a. Property, plant and equipment (excluding lease assets) Depreciation of property, plant and equipment is calculated primarily by the declining-balance method. b. Intangible assets (excluding lease assets) Depreciation of intangible assets is calculated primarily by the straight-line method. Depreciation of software for internal use is calculated based on its usable period (five years). c. Lease assets Depreciation is calculated by taking the useful life of the asset as the term of the lease and depreciating the residual value to zero by the straight-line method. Please note that finance leases for which ownership is not transferred to the lessee and which commenced on or prior to December 31, 2008, the Company employs accounting methods normally applicable to ordinary rental transactions. (Additional information) The Company and certain of its consolidated subsidiaries, beginning with this fiscal year, accompanying revisions in Japan’s income tax law in fiscal 2008, have reviewed the useful lives of their property, plant and equipment. Consequently, the useful lives, principally machinery and equipment included among property, plant and equipment, have been changed. As a result, operating income, recurring profit, and income before income taxes and minority interests were each ¥634 million higher than they would have been in the absence of this change in the method of calculating depreciation.	(2) Method of depreciation a. Property, plant and equipment (excluding lease assets) Depreciation of property, plant and equipment is calculated primarily by the declining-balance method. b. Intangible assets (excluding lease assets) Depreciation of intangible assets is calculated primarily by the straight-line method. Depreciation of software for internal use is calculated based on its usable period (five years). c. Lease assets Depreciation is calculated by taking the useful life of the asset as the term of the lease and depreciating the residual value to zero by the straight-line method. Please note that finance leases for which ownership is not transferred to the lessee and which commenced on or prior to December 31, 2008, the Company employs accounting methods normally applicable to ordinary rental transactions.
(3) Accounting for important reserves a. Reserve for doubtful accounts In order to prepare for losses of bad credits such as account receivables or loans and for valuation losses on financial instruments, except valuation losses on securities, the reserve for doubtful accounts is provided for at an uncollectable amount based on the historical percentage of credit losses for general credits, and is provided for at an amount that is estimated individually considering the possibilities of collection for bad credits that are highly possible to lose and the possibilities of future loss on financial instruments.	(3) Accounting for important reserves a. Reserve for doubtful accounts Same as in the left.
b. Reserve for bonuses to employees The reserve for bonuses to employees is presented at an estimated amount of the liability for bonuses incurred for the fiscal year.	b. Reserve for bonuses to employees Same as in the left.
c. Reserve for bonuses to directors The reserve for bonuses to directors is presented at an estimated amount of the liability for bonuses incurred for the fiscal year.	c. Reserve for bonuses to directors Same as in the left.
d. Reserve for sales rebates In order to prepare for any expenditure on sales rebates during the fiscal year under review, the reserve for such rebates is estimated based on the sales amount.	d. Reserve for sales rebates Same as in the left.

FY 2009.12 (Jan. 1, 2009 - Dec. 31, 2009)	FY 2010.12 (Jan. 1, 2010 - Dec. 31, 2010)
e. Reserve for employees' retirement benefits To provide for employees' retirement benefits, the Company states the amount of retirement benefit liabilities and the expected value of pension assets as of the end of the consolidated accounting year. Prior service cost is being amortized as incurred by the declining-balance method over 10 years, which is shorter than the average remaining years of service of the eligible employees. The actuarial gain and loss are amortized principally by the declining-balance method over 10 years, which is shorter than the average period of the remaining years of service of the eligible employees and are amortized from the following year in which the gain or loss is recognized.	e. Reserve for employees' retirement benefits Same as in the left.
f. Reserve for officers' retirement benefits The reserve for officers' retirement benefits is recorded at an amount based on management's estimate, which would be required to be paid if all officers resigned as of the balance sheet date on the basis of the Company's internal regulations. Please note that accompanying the abolishment of the system for payment of officers' retirement benefits, the amount of officers' retirement benefits payable for officers' terms of service through the termination of the system has been included in this reserve.	f. Reserve for officers' retirement benefits Same as in the left.
(4) Foreign currency translation The foreign currency based receivables and payables are translated into yen at the rates of exchange in effect at the balance sheet date, and the translation differences are presented as gains or losses. The asset and liability accounts of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, and the revenue and expense accounts are translated using the averages of exchange rates in the fiscal year under review. The accompanying translation differences are included in the foreign currency translation adjustment and minority interest accounts in net assets of the consolidated financial statements.	(4) Foreign currency translation Same as in the left.
(5) Other Income and expenses for the Company and its domestic subsidiaries are recorded at net of consumption tax.	(5) Other Same as in the left.
5. Basis of evaluation of consolidated subsidiaries The Company employs the partial fair value method to value the assets and liabilities of consolidated subsidiaries.	5. Basis of evaluation of consolidated subsidiaries Same as in the left.
6. Excess of costs over net assets of acquired subsidiaries ------------------	6. Excess of costs over net assets of acquired subsidiaries ------------------
7. Scope of cash equivalents in consolidated statements of cash flows All highly liquid investments with maturities of three months or less when purchased and which are readily convertible into cash and are exposed to insignificant risk of changes in value are considered cash equivalents.	7. Scope of cash equivalents in consolidated statements of cash flows Same as in the left.

Changes in Basis of Preparing Consolidated Financial Statements

FY 2009.12 (Jan. 1, 2009 - Dec. 31, 2009)	FY 2010.12 (Jan. 1, 2010 - Dec. 31, 2010)
(Accounting standards for measurement of inventories) Beginning with this fiscal year, the Company has applied “Accounting Standards for Measurement of Inventories” (ASBJ Statement No. 9, issued on July 5, 2006). Also, as a result of the application of these standards, losses on disposal of inventories, which were formerly included in non-operating expenses, have been reclassified as cost of sales. As a result, operating income was ¥1,250 million lower than it would have been otherwise. Please note that there was no effect on recurrent profit or income before income taxes and minority interests.	------------------
(Application of practical solution on unification of accounting policies applied to foreign subsidiaries for consolidated financial statements) Beginning with this fiscal year, accompanying the application of “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (Practical Issues Task Force, No. 18, issued on May 17, 2006), necessary revisions have been made in consolidated financial statements. As a result, retained earnings at the beginning of the period were ¥26 million lower. Also, revenues were ¥312 million lower, operating income was ¥6 million lower, and recurring profit and income before income taxes and minority interests were each ¥982 million higher than they would have been otherwise.	------------------
(Accounting standards for lease transactions) Beginning with this fiscal year, accompanying the application of the “Accounting Standards for Lease Transactions” (ASBJ Statement No. 13, originally issued by the First Subcommittee of the ASBJ on June 17, 1993, and the final revision issued on March 30, 2007) and “Implementation Guidance on Accounting Standards for Lease Transactions (ASBJ Guidance No. 16, originally issued by the Audit System Committee of the Japanese Institute of Certified Public Accountants on January 18, 1994, and the final revision issued on March 30, 2007), the accounting treatment for finance leases for which ownership is not transferred to the lessee has been changed from methods applicable to ordinary rental transactions to methods applicable to ordinary buying and selling transactions. The effect of this change on profit and loss for the current fiscal year was not material. Please note that, for finance leases for which ownership is not transferred to the lessee and which commenced prior to the application of these accounting standards, the Company adopts accounting standards that have been previously applied to ordinary rental transactions.	------------------
(Partial revision of “Accounting Standards for Retirement Benefits” (No. 3)) Accompanying changes making it possible to apply partial revision of “Accounting Standards for Retirement Benefits” (No. 3) (ASBJ No. 19, issued on July 31, 2008) for fiscal years beginning on or before March 31, 2009, the Company has applied this accounting standard beginning with the fiscal year under review. The application of this standard has no effect on the consolidated financial statements.	------------------

Changes in Presentation

FY 2009.12 (Jan. 1, 2009 - Dec. 31, 2009)	FY 2010.12 (Jan. 1, 2010 - Dec. 31, 2010)
(Consolidated Statements of Income) Through the end of the previous fiscal year, "Retirement benefits" were presented in the "Other" item within "Selling, general and administrative expenses." However, because "Retirement benefits" have become material, that are now presented in a separate item. Please note that "Retirement benefits" included in the "Other" item within "Selling, general and administrative expenses" in the previous fiscal year amounted to ¥1,672 million.	-----------------
(Consolidated Balance Sheets) Accompanying the application of "Cabinet Order Regarding Revision of a Portion of the Rules Relating to Terminology, Format, and the Method of Presentation of Financial Statements" (Cabinet Order No. 50, issued on August 7, 2008), the Company has presented certain items previously included within "Inventories" as separate items on the Consolidated Balance Sheets. These are "Merchandise and finished goods," "Work in process," and "Raw materials and supplies." Please note that the amounts of these items at the end of the previous fiscal year were as follows: Merchandise and finished goods: ¥61,691 million; Work in process: ¥56 million; Raw materials and supplies: ¥16,988 million.	----------------

Notes to the Consolidated Financial Statements

(Omission of disclosure)

Disclosure of the following notes to the consolidated financial statements has been omitted because they were deemed not to be significant items for these “Consolidated Financial Statements (Non-audited).”

Please note that these notes will be included in the Company’s *Securities Report (Yuka Shoken Hokokusho)*, which is scheduled to be submitted on March 24, 2011. Please access the EDINET electronic disclosure system and view the *Securities Report* and other disclosure documents, which are filed on this system pursuant to the requirements of the Financial Instruments and Exchange Act.

- Consolidated Balance Sheets
- Consolidated Statements of Income
- Consolidated Statements of Changes in Net Assets
- Consolidated Statements of Cash Flows
- Lease Transactions
- Financial Instruments
- Securities
- Derivative Transactions
- Stock Options and Related Matters
- Investment and Rental Property

(Segment Information)

(1) Business Segments

For the year ended Dec. 31, 2009 (Jan. 1, 2009 - Dec. 31, 2009) and
For the year ended Dec. 31, 2010 (Jan. 1, 2010 - Dec. 31, 2010)

As the Company and its consolidated subsidiaries have been comprised of a single business segment, Pharmaceutical business, the disclosure of business segment information has been omitted.

(2) Geographical Segments

For the year ended Dec. 31, 2009 (Jan. 1, 2009 - Dec. 31, 2009) and
For the year ended Dec. 31, 2010 (Jan. 1, 2010- Dec. 31, 2010)

As revenues and total assets of the foreign consolidated subsidiaries constituted less than 10% of consolidated totals, the disclosure of geographical segment information has been omitted.

(3) Overseas Revenues

For the year ended Dec. 31, 2009 (Jan. 1, 2009 - Dec. 31, 2009)

As overseas revenues (¥36,389 million) were less than 10% of consolidated totals, the disclosure of overseas revenues in countries or regions outside Japan has been omitted.

For the year ended Dec. 31, 2010 (Jan. 1, 2010 - Dec. 31, 2010)

As overseas revenues (¥36,567 million) were less than 10% of consolidated totals, the disclosure of overseas revenues in countries or regions outside Japan has been omitted.

(Information on the Related Parties)

For the year ended Dec. 31, 2009 (Jan. 1, 2009 - Dec. 31, 2009)

(Additional Information)

Beginning with the fiscal year ended December 31, 2009, the Company has applied "Accounting Standard for Related Party Disclosures" (ASBJ Statement No. 11, issued on October 17, 2006) and its "Implementation Guidance on Accounting Standard for Related Party Disclosures" (ASBJ Guidance No. 13, issued on October 17, 2006).

As a result, in addition to the previous scope of disclosure, information on the parent company is now subject to disclosure.

1. Transactions with related parties
   (1) 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 contents 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. Interlocking directors	Purchase of drug materials	120,159	Accounts payables	26,744
							Sales of drugs	11,227	Accounts receivable	6,390
							Sharing of co-development costs (Receipt)	9,545	Accrued receivables	8,328

(*): 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. Hoffman-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 contents or occupation	Rate of ownership of voting	Relationship	Transaction	Amount of transaction (*)	Account	Ending balance (*)
Director	Osamu Nagayama	—	—	Representative director and president of the Company	(Held) directly: 0.0%	Exercise of stock options	Exercise of stock options	11	—	—
Director	Motoo Ueno	—	—	Representative director of the Company	(Held) directly: 0.1%	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) and the 93rd General Meeting of Shareholders (held on March 25, 2004) and 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.

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)

   (2) Summary of material financial information for related companies
   None

For the year ended Dec. 31, 2010 (Jan. 1, 2010 - Dec. 31, 2010)

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 contents 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. Interlocking directors	Purchase of drug materials	87,840	Accounts payable	11,874
							Sales of drugs	15,537	Accounts receivable	3,161
							Sharing of co-development costs (Receipt)	5,931	Accrued receivable	4,922

(*): 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)

(2) Summary of material financial information for related companies
None

(Tax-Effect Accounting)

FY 2009.12 (As of Dec. 31, 2009)

(1) Principal deferred tax assets and tax liabilities

(Millions of Yen)

Deferred tax assets:	
Prepaid expenses for tax purposes	10,323
Depreciation of noncurrent assets in excess of limit	5,779
Unrecognized reserve for retirement benefits	5,160
Amortization of deferred charges in excess of limit for tax purposes	4,366
Unrecognized reserve for bonuses to employees	2,308
Unrecognized outstanding enterprise tax and local special income tax	1,751
Elimination of unrealized profit on inventories	1,361
Unrecognized reserve for sales rebates	1,229
Unrecognized losses on securities	1,222
Goods in storage for tax purposes	1,213
Unrecognized reserve for officers' retirement benefits	307
Impairment loss	152
Other	4,436
Total deferred tax assets	39,612
Valuation reserve	(2,292)
Offsetting of deferred tax liabilities	(1,667)
Net deferred tax assets	35,652
Deferred tax liabilities:	
Unrealized gain on securities	1,107
Reserve for deferred capital gain	559
Other	0
Total deferred tax liabilities	1,667
Offsetting of deferred tax assets	(1,667)
Net deferred tax liabilities	—

(2) Significant components of difference between statutory tax rate and effective tax rate

Statutory tax rate:	40.4%
(Reconciliation)	
Entertainment expenses, etc.	1.9
Dividends received, etc.	(0.0)
Per capita inhabitant tax	0.1
Tax rate difference of foreign consolidated subsidiaries, etc.	(1.8)
Special tax deduction for research and development expenses	(5.9)
Decrease in valuation reserves	0.1
Other	0.0
Effective tax rate	34.9%

FY 2010.12 (As of Dec. 31, 2010)

(1) Principal deferred tax assets and tax liabilities

(Millions of Yen)

Deferred tax assets:	
Prepaid expenses for tax purposes	8,566
Depreciation of noncurrent assets in excess of limit	6,201
Unrecognized reserve for retirement benefits	5,131
Amortization of deferred charges in excess of limit for tax purposes	4,635
Goods in storage for tax purposes	2,492
Unrecognized reserve for bonuses to employees	1,782
Unrecognized losses on securities	1,231
Unrecognized reserve for sales rebates	982
Elimination of unrealized profit on inventories	955
Unrecognized outstanding enterprise tax and local special income tax	445
Unrecognized reserve for officers' retirement benefits	294
Impairment loss	156
Other	5,627
Total deferred tax assets	38,505
Valuation reserve	(2,149)
Offsetting of deferred tax liabilities	(1,489)
Net deferred tax assets	34,866
Deferred tax liabilities:	
Unrealized gain on securities	904
Reserve for deferred capital gain	540
Other	44
Total deferred tax liabilities	1,489
Offsetting of deferred tax assets	(1,489)
Net deferred tax liabilities	—

(2) Significant components of difference between statutory tax rate and effective tax rate

Statutory tax rate:	40.4%
(Reconciliation)	
Entertainment expenses, etc.	2.6
Dividends received, etc.	(0.0)
Per capita inhabitant tax	0.2
Tax rate difference of foreign consolidated subsidiaries, etc.	(1.1)
Special tax deduction for research and development expenses	(6.9)
Decrease in valuation reserves	0.1
Other	(0.1)
Effective tax rate	35.2%

(Accounting for Retirement Benefits)

FY 2009.12 (Jan. 1, 2009 - Dec. 31, 2009)

(1) Overview of retirement benefits

The Company has both defined benefit and defined contribution pension plans. Defined benefit plans established are the corporate pension plan and lump-sum retirement payment plan.

The Company has established an employment benefit trust to cover lump-sum retirement payments. Please note that, at the time of payment of employees' retirement benefits, etc., additional payments are made in some cases other than those benefit obligations computed through actuarial calculations of retirement benefit liabilities.

The Company's domestic consolidated subsidiaries participate in the lump-sum payment plan.

Overseas consolidated subsidiaries have established defined benefit and/or defined contribution pension plans.

(2) Retirement benefit obligation

	(Millions of Yen)
Retirement benefit obligation	(65,350)
Pension assets	60,434
Unfunded retirement benefit obligation	(4,915)
Unrecognized prior service cost	(1,845)
Unrecognized actuarial loss	4,312
Net amount recorded in the consolidated balance sheets	(2,448)
Prepaid pension cost	261
Reserve for employees' retirement benefits	(2,709)

Note: The Company's domestic consolidated subsidiaries adopted the simplified method on calculating the retirement benefit obligation.

(3) Retirement benefit expenses

	(Millions of Yen)
Service cost (*)	2,571
Interest cost	1,402
Expected return on pension assets	(1,271)
Amortization of actuarial gain or loss	1,141
Amortization of prior service cost	(478)
Contribution to a defined contribution pension plan	802
Provisional payments of additional retirement benefits	55
Total retirement benefit expenses	4,224

Note: *Retirement benefit expenses of consolidated subsidiaries that adopted the simplified method are included to this amount.

FY 2010.12 (Jan. 1, 2010 - Dec. 31, 2010)

(1) Overview of retirement benefits

Same as in the left.

(2) Retirement benefit obligation

	(Millions of Yen)
Retirement benefit obligation	(66,208)
Pension assets	62,602
Unfunded retirement benefit obligation	(3,606)
Unrecognized prior service cost	(1,465)
Unrecognized actuarial loss	2,730
Net amount recorded in the consolidated balance sheets	(2,340)
Prepaid pension cost	255
Reserve for employees' retirement benefits	(2,596)

Note: The Company's domestic consolidated subsidiaries adopted the simplified method on calculating the retirement benefit obligation.

(3) Retirement benefit expenses

	(Millions of Yen)
Service cost (*)	2,683
Interest cost	1,453
Expected return on pension assets	(1,311)
Amortization of actuarial gain or loss	895
Amortization of prior service cost	(380)
Contribution to a defined contribution pension plan	832
Total retirement benefit expenses	4,173

Note: *Retirement benefit expenses of consolidated subsidiaries that adopted the simplified method are included to this amount.

FY 2009.12 (Jan. 1, 2009 - Dec. 31, 2009)	FY 2010.12 (Jan. 1, 2010 - Dec. 31, 2010)
(4) Assumptions and policies adopted in calculation of retirement benefit obligation Discount rate: Principally 2.25% Rate of expected return on plan assets: 0.8%~2.5% Method of attribution of retirement benefits to the period: Principally straight-line method for the years of services Period of amortizing prior service cost: 10 years (Prior service cost is being amortized by the declining-balance method over a period of average remaining service years of employees at the time of occurrence.) Period of amortizing actuarial gain and loss: Principally 10 years (Actuarial gain and loss are amortized principally by the declining-balance method over the period of average remaining service years of employees at the time of occurrence from the following year of occurrence.)	(4) Assumptions and policies adopted in calculation of retirement benefit obligation Discount rate: Principally 2.25% Rate of expected return on plan assets: 0.6%~2.5% Method of attribution of retirement benefits to the period: Principally straight-line method for the years of services Period of amortizing prior service cost: 10 years (Prior service cost is being amortized by the declining-balance method over a period of average remaining service years of employees at the time of occurrence.) Period of amortizing actuarial gain and loss: Principally 10 years (Actuarial gain and loss are amortized principally by the declining-balance method over the period of average remaining service years of employees at the time of occurrence from the following year of occurrence.)

(Per Share Information)

(Yen)

	FY 2009.12 (Jan. 1, 2009 - Dec. 31, 2009)	FY 2010.12 (Jan. 1, 2010 - Dec. 31, 2010)
Net assets per share	¥794.51	¥821.87
Net income per share	104.00	76.14
Net income per share after adjustment for latent stock	103.98	76.12

Basis for Calculations of Net Income per Share and Net Income per Share after Adjustment for Latent Stock

	FY 2009.12 (Jan. 1, 2009 - Dec. 31, 2009)	FY 2010.12 (Jan. 1, 2010 - Dec. 31, 2010)
Net income per share		
Net income	¥56,634 million	¥41,433 million
Value not attributed to common stock	— million	— million
Net income attributed to common stock	56,634 million	41,433 million
Average number of outstanding common stocks during the period	544,539,690 shares	544,194,315 shares
Net income per share after adjustment for latent stock		
Net income adjustment value	¥— million	¥— million
Increase in number of outstanding common stocks	107,488 shares	124,760 shares
(Including new share warrants)	(107,488) shares	(124,760) shares
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: 2 types Resolution by the General Meeting of Shareholders on March 23, 2006: Number of latent shares: 338,000 shares Number of rights to purchase new shares: 3,380 rights Resolution by the Board of Directors on March 23, 2007: Number of latent shares: 350,000 shares Number of rights to purchase new shares: 3,500 rights	Rights to purchase new shares: 6 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: 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 shares 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 shares

(Material Subsequent Event)

None

Non-Consolidated Balance Sheets

(Millions of Yen)

	As of December 31, 2009	As of December 31, 2010
Assets		
I Current assets:		
Cash and deposits	83,762	55,880
Accounts receivable	120,903	111,985
Marketable securities	52,157	59,699
Merchandise and finished goods	45,640	54,224
Raw materials and supplies	4,016	2,467
Prepaid expenses	197	1,766
Deferred tax assets	19,209	17,679
Short-term loans	4,800	17,300
Accrued receivables	42,917	22,528
Other	2,317	1,314
Reserve for doubtful accounts	(33)	(1)
Total current assets	375,888	344,845
II Noncurrent assets:		
1. Property, plant and equipment:		
Buildings	59,945	60,796
Accumulated depreciation	(34,702)	(36,735)
Buildings (net)	25,243	24,061
Structure	5,043	5,045
Accumulated depreciation	(3,681)	(3,805)
Structure (net)	1,361	1,240
Machinery and equipment	20,997	21,755
Accumulated depreciation	(16,990)	(18,342)
Machinery and equipment (net)	4,006	3,413
Vehicles and transport equipment	83	77
Accumulated depreciation	(51)	(60)
Vehicles and transport equipment (net)	31	16
Furniture and fixtures	31,607	33,876
Accumulated depreciation	(26,128)	(28,486)
Furniture and fixtures (net)	5,479	5,390
Land	9,061	9,061
Lease assets	10	35
Accumulated depreciation	(2)	(9)
Lease assets (net)	8	25
Construction in progress	405	1,157
Total property, plant and equipment	45,596	44,365
2. Intangible assets:		
Patent rights	13	8
Trademark rights	2	1
Software	1,052	638
Other	584	560
Total intangible assets	1,651	1,209

(Millions of Yen)

	As of December 31, 2009	As of December 31, 2010
3. Investments and other assets:		
Investment securities	9,585	7,516
Investments in subsidiaries and affiliates	55,537	55,631
Investment in capital to affiliates	43	43
Long-term loans	27	17
Long-term loans to employees	1	0
Long-term prepaid expenses	3,021	3,787
Deferred tax assets	13,155	13,925
Guarantee deposits	4,080	4,278
Long-term receivables	435	15
Other	783	768
Reserve for doubtful accounts	(218)	(185)
Total investments and other assets	86,452	85,799
Total noncurrent assets	133,701	131,374
Total assets	509,590	476,219

(Millions of Yen)

	As of December 31, 2009	As of December 31, 2010
Liabilities		
I Current liabilities:		
Accounts payable	38,715	18,704
Lease obligations	5	17
Accrued payables	169	530
Accrued expenses	22,396	16,261
Accrued income taxes	22,066	2,979
Accrued consumption taxes	2,830	—
Deposits received	1,281	1,703
Reserve for bonuses to employees	4,866	3,683
Reserve for bonuses to directors	174	216
Reserve for sales rebates	3,044	2,434
Accrued capital investments	2,753	3,209
Other	397	411
Total current liabilities	98,703	50,151
II Noncurrent liabilities:		
Lease obligations	2	10
Reserve for employees' retirement benefits	2,137	1,907
Reserve for officers' retirement benefits	761	729
Other	55	52
Total noncurrent liabilities	2,957	2,699
Total liabilities	101,660	52,851
Net assets		
I Shareholders' equity:		
1. Common stock	72,966	72,966
2. Additional paid-in capital		
Capital surplus	92,815	92,815
Total additional paid-in capital	92,815	92,815
3. Retained earnings		
1. Legal reserve	6,480	6,480
2. Other		
Reserve for advanced depreciation of fixed assets	827	797
General reserve	149,220	149,220
Retained earnings carried forward	119,721	135,229
Total retained earnings	276,249	291,727
4. Treasury stock, at cost	(36,274)	(36,256)
Total shareholders' equity	405,756	421,252
II Valuation and translation adjustments:		
Net unrealized gain on securities	1,636	1,341
Total valuation and translation adjustments	1,636	1,341
III New share warrants:	536	775
Total net assets	407,929	423,368
Total liabilities and net assets	509,590	476,219

Non-Consolidated Statements of Income

(Millions of Yen)

	FY 2009.12 (Jan. 1, 2009 - Dec. 31, 2009)	FY 2010.12 (Jan. 1, 2010 - Dec. 31, 2010)
I Revenues:		
Product sales	363,117	319,015
Merchandise sales	42,164	44,972
Other operating revenues	9,995	3,489
Total revenues	415,277	367,478
II Cost of sales:		
1 Inventory of merchandise and products at beginning of period	38,329	44,894
2 Merchandise procured during the period	27,471	31,222
3 Cost of production during the period	169,055	139,598
4 Transfer from other accounts	6,233	2,444
Total	241,090	218,159
5 Transfer to other accounts	553	167
6 Inventory of merchandise and products at end of period	44,894	53,487
Total cost of sales	195,643	164,503
Gross profit	219,634	202,974
III Selling, general and administrative expenses:		
Advertising expense	25	45
Sales promotion expenses	15,719	15,762
Salaries and allowances	28,079	29,832
Welfare expenses	7,012	7,205
Reserve for bonuses to employees	3,399	2,536
Reserve for bonuses to directors	174	216
Reserve for employees' retirement benefits	2,645	2,593
Reserve for officers' retirement benefits	22	—
Travel and transportation expenses	5,196	5,112
Depreciation	2,104	1,496
R&D expenses	55,153	54,635
Other	27,348	25,934
Total selling, general and administrative expenses	146,881	145,369
Operating income	72,753	57,605

(Millions of Yen)

	FY 2009.12 (Jan. 1, 2009 - Dec. 31, 2009)	FY 2010.12 (Jan. 1, 2010 - Dec. 31, 2010)
IV Non-operating income:		
Interest income	96	93
Interest on securities	394	221
Dividend income	113	132
Gain on valuation of derivatives	7,327	—
Real estate rental income	1,398	1,224
Reversal of reserve for doubtful accounts	25	46
Gain on foreign exchange	—	847
Other	1,013	894
Total non-operating income	10,369	3,460
V Non-operating expenses:		
Interest expense	9	8
Reserve for doubtful accounts	9	—
Loss on doubtful accounts	3	0
Loss on foreign exchange	1,029	—
Loss on retirement of noncurrent assets	119	106
Loss of valuation of derivatives	—	2,762
Other	211	401
Total non-operating expenses	1,383	3,279
Recurring profit	81,739	57,786
VI Extraordinary gain:		
Gain on sales of noncurrent assets	264	8
Gain on extinguishment of tie-in shares	25	—
Gain on sales of investment securities	—	95
Total extraordinary gain	289	103
VII Extraordinary loss:		
Loss on sales of noncurrent assets	0	0
Impairment loss	26	41
Restructuring loss	110	43
Loss on valuation of investment securities	12	1
Loss on sales of investment securities	—	2
Total extraordinary loss	151	88
Income before income taxes and minority interests	81,877	57,801
Income taxes:		
Current	31,185	19,583
Deferred	(2,046)	964
Total income taxes	29,139	20,547
Net income	52,738	37,254

Non-Consolidated Statements of Changes in Net Assets

(Millions of Yen)

	FY 2009.12 (Jan. 1, 2009 - Dec. 31, 2009)	FY 2010.12 (Jan. 1, 2010 - Dec. 31, 2010)
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		
Capital surplus		
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		
Legal reserve		
Balance as of the end of the previous year	6,480	6,480
Changes during the period		
Net change during the period	—	—
Balance as of the end of the year	6,480	6,480
Other retained earnings		
Reserve for advanced depreciation of fixed assets		
Balance as of the end of the previous year	862	827
Changes during the period		
Reversal of reserve for advanced depreciation of fixed assets	(35)	(29)
Net change during the period	(35)	(29)
Balance as of the end of the year	827	797
General reserve		
Balance as of the end of the previous year	149,220	149,220
Changes during the period		
Net change during the period	—	—
Balance as of the end of the year	149,220	149,220
Retained earnings carried forward		
Balance as of the end of the previous year	86,580	119,721
Changes during the period		
Reversal of reserve for advanced depreciation of fixed assets	35	29
Dividends paid	(19,613)	(21,767)
Net income	52,738	37,254
Deposition of treasury stocks	(18)	(8)
Net change during the period	33,141	15,507
Balance as of the end of the year	119,721	135,229

(Millions of Yen)

	FY 2009.12 (Jan. 1, 2009 - Dec. 31, 2009)	FY 2010.12 (Jan. 1, 2010 - Dec. 31, 2010)
Treasury stock, at cost		
Balance as of the end of the previous year	(35,168)	(36,274)
Changes during the period		
Purchase of treasury stocks	(1,161)	(9)
Deposition of treasury stocks	55	27
Net change during the period	(1,106)	17
Balance as of the end of the year	(36,274)	(36,256)
Total shareholders' equity		
Balance as of the end of the previous year	373,756	405,756
Changes during the period		
Dividends paid	(19,613)	(21,767)
Net income	52,738	37,254
Purchase of treasury stocks	(1,161)	(9)
Deposition of treasury stocks	36	19
Net change during the period	31,999	15,495
Balance as of the end of the year	405,756	421,252
Valuation and translation adjustments		
Net unrealized gain on securities		
Balance as of the end of the previous year	1,354	1,636
Changes during the period		
Net changes except for shareholders' equity	281	(295)
Net change during the period	281	(295)
Balance as of the end of the year	1,636	1,341
New share warrants		
Balance as of the end of the previous year	326	536
Changes during the period		
Net changes except for shareholders' equity	210	238
Net change during the period	210	238
Balance as of the end of the year	536	775
Total net assets		
Balance as of the end of the previous year	375,437	407,929
Changes during the period		
Dividends paid	(19,613)	(21,767)
Net income	52,738	37,254
Purchase of treasury stocks	(1,161)	(9)
Deposition of treasury stocks	36	19
Net changes except for shareholders' equity	491	(56)
Net change during the period	32,491	15,439
Balance as of the end of the year	407,929	423,368

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

None