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.

FASF MEMBERSHIP

CHUGAI PHARMACEUTICAL CO., LTD.

A member of the Roche group

CONSOLIDATED FINANCIAL STATEMENTS (Japan GAAP) (Non-audited) (for the third quarter of fiscal year 2010)

Name of Company: **Chugai Pharmaceutical Co., Ltd.** October 22, 2010

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 Submission of Marketable Securities Filings: November 5, 2010

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)

1. Consolidated Operating Results for the Third Quarter of FY 2010 (January 1, 2010–September 30, 2010)

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

	Revenues	% change	Operating Income	% change	Recurring Profit	% change
First nine months of FY 2010	¥276,076 million	(10.9)	¥45,129 million	(23.2)	¥44,258 million	(33.0)
First nine months of FY 2009	¥309,713 million	—	¥58,784 million	—	¥66,043 million	—

	Net Income	% change	Net Income per Share (Basic)	Net Income per Share (Fully Diluted)
First nine months of FY 2010	¥28,053 million	(31.4)	¥51.55	¥51.54
First nine months of FY 2009	¥40,889 million	—	¥75.07	¥75.06

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

(2) Consolidated Financial Condition

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
As of September 30, 2010	¥501,175 million	¥436,749 million	86.8%	¥799.11
As of Dec. 31, 2009	¥540,549 million	¥434,686 million	80.0%	¥794.51

Reference: Shareholders' equity at September 30, 2010: ¥434,870 million
Shareholders' equity at December 31, 2009: ¥432,361 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 ending Dec. 2010	—	¥17.00	—		
FY ending Dec. 2010 (Forecast)				¥17.00	¥34.00

Note: Whether the dividend forecast under review has been revised: No
Reference: 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. Forecast of Consolidated Results for FY 2010 (January 1, 2010–December 31, 2010)

	Revenues	% Change	Operating Income	% Change	Recurring Profit	% Change
FY 2010	¥395,800 million	(7.7)	¥70,000 million	(15.3)	¥68,700 million	(24.0)

	Net Income	% Change	Net Income per Share (Basic)
FY 2010	¥43,000 million	(24.1)	¥79.02

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

2. Whether the forecasts for consolidated figures under review have been revised: Yes

Reference: Regarding the revised forecast of consolidated results, please refer to "Revision of Financial Outlook for Fiscal Year 2010" announced today October 22, 2010.

4. Others (For details, see the section of "Others" on page 5.)

(1) Changes in the state of material subsidiaries during the period: None

Note: Changes in the state of specific subsidiaries during the period attendant with change in scope of consolidation

(2) Application of simplified accounting methods and/or special accounting method: Yes

Note: Application of simplified accounting methods and/or special accounting methods for preparation of the quarterly consolidated financial statements

(3) Changes in principles, procedures, methods of presentation, etc.

(a) Changes accompanying revisions in accounting principles: None

(b) Changes other than those in (a) above: None

Note: Changes in principles, procedures, methods of presentation, etc., related to "material items that form the basis for the preparation and presentation of the quarterly consolidated financial statements"

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

(Shares)

(a) Number of shares at the end of the period (including treasury stock)	Third quarter of FY 2010	559,685,889	FY 2009	559,685,889
(b) Number of treasury stock at the end of the period	Third quarter of FY 2010	15,488,795	FY 2009	15,497,079
(c) Average number of shares issued during the period (six months)	Third quarter of FY 2010	544,193,553	Third quarter of FY 2009	544,665,306

Note: 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.

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 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 "(3) Qualitative Information Regarding the Forecast for Consolidated Performance" in the section of "Qualitative Information" on page 5.

1. Qualitative Information

(1) Qualitative Information Regarding Operating Results (Consolidated)

(Billions of Yen)

	First nine months of FY 2009.12 (Jan. 1, 2009–Sep. 30, 2009)	First nine months of FY 2010.12 (Jan. 1, 2010–Sep. 30, 2010)	% Change
Revenues	309.7	276.1	(10.8)
Sales (excluding Tamiflu)	247.6	257.4	+4.0
Cost of sales	143.3	119.6	(16.5)
Gross profit	166.4	156.5	(5.9)
SG&A (excl. R&D) expenses	69.8	71.4	+2.3
R&D expenses	37.8	39.9	+5.6
Operating income	58.8	45.1	(23.3)
Recurring profit	66.0	44.3	(32.9)
Net income	40.9	28.1	(31.3)

Consolidated revenues through the third quarter under review were ¥276.1 billion (a decrease of 10.8% year on year).

Sales of the anti-influenza agent Tamiflu, which vary widely from year to year, amounted to ¥15.8 billion (a decline of 71.7% year on year). Excluding sales of Tamiflu and other operating revenues, which amounted to ¥2.8 billion (a decrease of 55.6% year on year), sales amounted to ¥257.4 billion (an increase of 4.0% year on year).

Domestic Sales (Excluding Tamiflu)

In the oncology field, sales amounted to ¥100.1 billion (an increase of 12.6% year on year). This gain in sales was due to steadily increasing market penetration of new products and products with additional indications. These included Avastin (an anti-vascular endothelial growth factor (VEGF) receptor humanized monoclonal antibody anti-cancer agent), which received approval for the additional indication of non-small cell lung cancer in November 2009, and Xeloda (a 5-FU derivative anti-cancer agent), which received approval for the additional indication of colorectal cancer in combination with oxaliplatin in September 2009.

In the bone and joint diseases field, sales were ¥44.1 billion (an increase of 7.0% year on year). This increase was due to steady expansion in sales of Actemra (a humanized anti-human IL-6 receptor monoclonal antibody).

On the other hand, in the renal disease field, sales amounted to ¥41.7 billion (a decrease of 6.1% year on year). This decline was due to lower sales of Epogin (a recombinant human erythropoietin) as a result of a National Health Insurance reimbursement price revision and more-intense competition.

In the transplant, immunology, and infectious disease field (excluding Tamiflu), sales were ¥18.3 billion (a decrease of 5.2% 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 an overall decline in the market.

Tamiflu Anti-influenza Agent

Sales of Tamiflu for ordinary use through the third quarter amounted to ¥1.4 billion (a decline of 92.4% year on year). This drop was due to an early decrease in the number of new influenza cases. Sales to government stockpiles through the third quarter were ¥14.4 billion (a decrease of 61.4% year on year).

Overseas Sales

Overseas sales amounted to ¥26.1 billion (an increase of 10.1% year on year). This rise was due to an increase in exports of Actemra to Roche outweighing a decline in sales of Neutrogin, a recombinant human granulocyte colony-stimulating factor (G-CSF), due to the adverse effects of competition from follow-on biologics and currency fluctuations. In the United States, Actemra received approval from the U.S. Food and Drug Administration in January 2010, and the marketing of this drug began the same month. At present, this drug is marketed in more than 50 countries (European product name: RoActemra).

Profit (Loss) Condition

As a result of the decline in sales of Tamiflu and the decrease in other operating revenues, gross profit for the quarter amounted to ¥156.5 billion (a decline of 5.9% year on year).

Selling, general and administrative expenses excluding R&D expenses were ¥71.4 billion (an increase of 2.3% year on year), as a result of personnel cost increase etc. R&D expenses amounted to ¥39.9 billion (an increase of 5.6% year on year). This increase was due to aggressive investment in drug discovery research and expenditures on early-stage research projects.

As a consequence, operating income was ¥45.1 billion (a decrease of 23.3% year on year). In addition, due to a loss on derivatives arising from forward foreign exchange contracts, concluded to reduce the risk of foreign exchange transactions (compared with a gain on such contracts in the same quarter of the previous fiscal year), recurring profit amounted to ¥44.3 billion (a decline of 32.9% year on year), and net income for the quarter was ¥28.1 billion (a decrease of 31.3% year on year).

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) Qualitative Information Regarding Financial Condition (Consolidated)

Assets, Liabilities, and Net Assets

At the end of the third quarter under review, total assets on a consolidated basis amounted to ¥501.2 billion, representing a decline of ¥39.3 billion in comparison with the end of the previous fiscal year. This decrease was mainly due to a decline in cash and deposits of ¥36.8 billion and a decline in trade notes and accounts receivable of ¥22.3 billion, which was partially offset by an increase in merchandise and finished goods of ¥28.1 billion.

Total liabilities on a consolidated basis stood at ¥64.4 billion, representing a decrease of ¥41.5 billion compared with the end of the previous fiscal year. Principal factors accounting for this decrease were a drop of ¥21.2 billion in income taxes payable, a decline of ¥14.6 billion in other current liabilities owing to a decline in accrued expenses, and a decrease of ¥8.1 billion in trade notes and accounts payable. Net working capital (equivalent to current assets minus current liabilities) at the end of the third quarter amounted to ¥319.7 billion.

Total net assets on a consolidated basis were ¥436.7 billion, ¥2.0 billion higher than at the end of the previous fiscal year. Principal factors accounting for this increase were as follows: Due to the reporting of net income of ¥28.1 billion through the quarter under review, retained earnings increased ¥6.3 billion after the payment of dividends amounting to ¥21.8 billion. The value of the foreign currency translation adjustments account decreased by ¥3.3 billion.

Cash Flows

Cash and cash equivalents at the end of the third quarter under review amounted to ¥58.4 billion (versus ¥64.6 billion at the end of the same quarter of the previous fiscal year).

Net cash provided by operating activities amounted to ¥4.4 billion (compared with ¥36.9 billion for the same quarter of the previous fiscal year). This was due primarily to income before income taxes and minority interests of ¥44.3 billion, income taxes paid of ¥38.1 billion, an increase in inventories of ¥23.7 billion, and a decrease in notes and accounts receivable of ¥22.1 billion.

Net cash used in investing activities was ¥16.2 billion (compared with cash used in investing activities of ¥21.6 billion for the same quarter of the previous fiscal year). Principal factors accounting for this were as follows: Purchases of noncurrent assets of ¥10.3 billion, net purchases of marketable and investment securities of ¥4.9 billion, and net payments into time deposits amounting to ¥1.0 billion.

Net cash used in financing activities amounted to ¥23.1 billion (compared with ¥22.3 billion for the same quarter of the previous fiscal year). This was due to cash dividends paid of ¥21.8 billion, as the Company paid a special dividend of ¥6 per share in addition to the regular dividend for the end of the previous fiscal year and interim of this year.

Please note that in this item, 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) Qualitative Information Regarding the Forecast for Consolidated Performance

The sales forecasts for the products such as Tamiflu, Avastin, a 5-HT3 receptorantagonist/antiemetic agent Kytril, Epogin, Pegasys, Copegus, and export sales forecast for Actemra are revised in light of the size of the influenza epidemic in the winter 2009/2010 as well as sales trend of major products up to September.

In addition, the full year consolidated forecast is also revised after considering ongoing cost savings in SG&A and the impacts from foreign exchange fluctuations. The revised forecast for the fourth quarter is based on an updated foreign exchange rate assumption: 1CHF = 85 JPY and 1EUR = 119 JPY.

2. Others

(1) Changes in the state of material subsidiaries

None

(2) Simplified accounting methods and/or special accounting method

(a) Simplified accounting methods

(Valuation of inventories)

In calculating the amount of inventories at the end of the third consolidated quarter, the amount of inventories based on on-site inspections reported at the end of the previous consolidated fiscal year is taken as a base, and the value of inventories is determined according to reasonable methods. In addition, in calculating write-downs in the book value of inventories, only for those inventories whose profitability has clearly declined, the net sale value is estimated, and the method of reducing book value to net sales value is used.

(Method for calculating depreciation of noncurrent assets)

For assets that are depreciated using the declining-balance method, the amount of depreciation for each quarter is calculated by dividing the amount of depreciation for the consolidated fiscal year into four equal installments and charging such installments as an expense for each quarter.

(Calculation of income taxes and deferred tax assets and deferred tax liabilities)

For certain consolidated subsidiaries, the method of increasing or decreasing material calculation items and material deduction items for income tax purposes is employed in calculating the amount of income taxes payable and in calculating deferred tax assets and deferred tax liabilities.

In making judgments regarding the recoverability of deferred income tax assets, in cases where it is recognized that there have been no major changes in the management environment since the end of the previous consolidated fiscal year and no major temporary differences, the Company applies the method of using the forecast for future performance and tax planning employed at the time of the preparation of the accounts for the end of the previous consolidated fiscal year, and, in cases where it is recognized that there have been major changes in the management environment since the end of the previous consolidated fiscal year and/or major temporary differences, the Company employs the method of taking account of such changes in the forecast for future performance and tax planning.

(b) Special accounting methods for preparation of the quarterly financial statements

None

(3) Changes in principles, procedures, methods of preparation, etc.

None

3. Financial Statements

(1) Consolidated Balance Sheets

(Millions of Yen)

	As of September 30, 2010	As of December 31, 2009 (Summary)
Assets		
I Current assets:		
Cash and deposits	70,177	106,978
Trade notes and accounts receivable	99,292	121,607
Marketable securities	58,701	52,157
Merchandise and finished goods	99,830	71,699
Work in process	79	10
Raw materials and supplies	15,997	20,932
Deferred tax assets	22,236	21,058
Other	12,784	16,893
Reserve for doubtful accounts	(5)	(35)
Total current assets	379,092	411,302
II Noncurrent assets:		
1. Property, plant and equipment:		
Buildings and structures (net)	50,824	53,428
Other (net)	37,620	40,235
Total property, plant and equipment	88,445	93,663
2. Intangible assets:	2,561	3,244
3. Investments and other assets:		
Investment securities	7,327	9,657
Deferred tax assets	15,397	14,593
Other	8,539	8,306
Reserve for doubtful accounts	(189)	(219)
Total investments and other assets	31,075	32,338
Total noncurrent assets	122,082	129,246
Total assets	501,175	540,549

(Millions of Yen)

	As of September 30, 2010	As of December 31, 2009 (Summary)
Liabilities		
I Current liabilities:		
Trade notes and accounts payable	26,247	34,263
Income taxes payable	877	22,142
Reserve for bonuses to employees	9,451	5,731
Other reserves	2,319	3,219
Other	20,535	35,125
Total current liabilities	59,432	100,482
II Noncurrent liabilities:		
Reserves	3,324	3,471
Other	1,669	1,908
Total noncurrent liabilities	4,994	5,380
Total liabilities	64,426	105,862
Net assets		
I Shareholders' equity:		
1. Common stock	72,966	72,966
2. Additional paid-in capital	92,815	92,815
3. Retained earnings	314,262	307,984
4. Treasury stock, at cost	(36,252)	(36,274)
Total shareholders' equity	443,791	437,492
II Valuation and translation adjustments:		
1. Net unrealized gain on securities	1,188	1,636
2. Foreign currency translation adjustments	(10,109)	(6,767)
Total valuation and translation adjustments	(8,921)	(5,131)
III New share warrants	705	536
IV Minority interests	1,173	1,788
Total net assets	436,749	434,686
Total liabilities and net assets	501,175	540,549

(2) Consolidated Statements of Income

(Millions of Yen)

		First nine months of FY 2009 (Jan. 1, 2009 – Sep. 30, 2009)	First nine months of FY 2010 (Jan. 1, 2010 – Sep. 30, 2010)
I	Revenues:		
	Sales	303,432	273,252
	Other operating revenues	6,280	2,823
	Total revenues	309,713	276,076
II	Cost of sales:	143,301	119,604
	Gross profit	166,411	156,472
III	Selling, general and administrative expenses:		
	Sales promotion expenses	11,241	10,996
	Salaries and benefits	19,591	20,807
	Reserve for bonuses	5,456	5,513
	R&D expenses	37,785	39,900
	Retirement benefits	—	2,031
	Other	33,552	32,092
	Total selling, general and administrative expenses	107,626	111,342
	Operating income	58,784	45,129
IV	Non-operating income:		
	Interest income	544	241
	Gain on derivatives	6,059	—
	Gain on foreign exchange	—	1,103
	Other	1,165	822
	Total non-operating income	7,770	2,167
V	Non-operating expenses:		
	Interest expenses	16	3
	Loss on abandonment of noncurrent assets	178	82
	Loss on retirement of noncurrent assets	138	100
	Loss on derivatives	—	2,516
	Other	177	336
	Total non-operating expenses	510	3,038
	Recurring profit	66,043	44,258
VI	Extraordinary gain:		
	Gain on sales of noncurrent assets	264	—
	Gain on extinguishment of tie-in shares	25	—
	Gain on sales of investment securities	—	95
	Subsidy	—	50
	Total extraordinary gain	289	145
VII	Extraordinary loss:		
	Impairment loss	26	35
	Restructuring loss	51	67
	Other	2	5
	Total extraordinary loss	80	108
	Income before income taxes and minority interests	66,253	44,295
	Income taxes current	25,005	17,025
	Income taxes deferred	(862)	(1,695)
	Total income taxes	24,142	15,330
	Minority interests	1,220	911
	Net income	40,889	28,053

(3) Consolidated Statements of Cash Flow

(Millions of Yen)

		First nine months of FY 2009 (Jan. 1, 2009 – Sep. 30, 2009)	First nine months of FY 2010 (Jan. 1, 2010 – Sep. 30, 2010)
I	Cash flows from operating activities:		
	Income before income taxes and minority interests	66,253	44,295
	Depreciation and amortization	14,076	13,047
	Impairment loss	26	35
	Interest and dividend income	(600)	(311)
	Interest expense	16	3
	Loss on retirement of noncurrent assets	138	100
	(Gain) loss on sales of noncurrent assets	(263)	0
	(Gain) loss on sales and revaluation of investment securities	1	(90)
	(Increase) decrease in notes and accounts receivable	(13,191)	22,080
	(Increase) in inventories	(11,347)	(23,679)
	Increase (decrease) in notes and accounts payable	5,445	(7,901)
	Other	(719)	(5,416)
	Subtotal	59,835	42,163
	Interest and dividends received	586	296
	Interest paid	(16)	(5)
	Income taxes paid	(23,523)	(38,053)
	Net cash provided by operating activities	36,881	4,400
II	Cash flows from investing activities:		
	Payments into time deposits	(23,276)	(14,387)
	Proceeds from withdrawal of time deposits	10,171	13,398
	Purchase of marketable securities	(88,163)	(92,386)
	Proceeds from sales of marketable securities	92,900	85,900
	Purchase of investment securities	(629)	(4)
	Proceeds from sales of investment securities	—	1,612
	Purchases of noncurrent assets	(12,982)	(10,321)
	Proceeds from sales of noncurrent assets	328	0
	Other	15	9
	Net cash (used in) investing activities	(21,636)	(16,178)
III	Cash flows from financing activities:		
	Net (increase) in treasury stock	(1,158)	(5)
	Cash dividends paid	(19,631)	(21,769)
	Cash dividends paid to minority interests	(1,502)	(1,276)
	Other	(1)	(5)
	Net cash (used in) financing activities	(22,293)	(23,057)
IV	Effect of exchange rate changes on cash and cash equivalents	968	(1,221)
V	Net (decrease) in cash and cash equivalents	(6,080)	(36,057)
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	64,578	58,420

(4) Notes Regarding Assumptions as a Going Concern

None

(5) Segment Information

Business Segments

For the first nine months of FY 2009 (Jan. 1, 2009 – Sep.30, 2009) and the first nine months of FY 2010 (Jan. 1, 2010 – Sep. 30, 2010)

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.

Geographical Segments

For the first nine months of FY 2009 (Jan. 1, 2009 – Sep.30, 2009) and the first nine months of FY 2010 (Jan. 1, 2010 – Sep. 30, 2010)

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

Overseas Revenues

For the first nine months of FY 2009 (Jan. 1, 2009 – Sep. 30, 2009)

As overseas revenues (¥26,056 million) were less than 10% of consolidated totals, the disclosure of overseas revenues in countries or regions outside Japan has been omitted.

For the first nine months of FY 2010 (Jan. 1, 2010 – Sep. 30, 2010)

(Millions of Yen)

	Europe	Other Regions	Total
Overseas revenues	¥26,797	¥1,795	¥ 28,592
Revenues			276,076
% of revenues	9.7	0.7	10.4

Notes: 1. Division by country or region is based on geographical proximity.
2. The countries and regions belonging to geographical classifications are as follows:
(1) Europe: Switzerland, France, the U.K., Germany, etc.
(2) Other Regions: Republic of Korea, Taiwan, People's Republic of China, the U.S., etc.
3. Overseas revenues are defined as revenues made by the Company and its consolidated subsidiaries in countries or regions outside Japan.

(6) Notes Regarding Major Changes in Shareholders' Equity

None