CHUGAI PHARMACEUTICAL CO., LTD.

A member of the Roche group

CONSOLIDATED FINANCIAL STATEMENTS (Non-audited)
(for the first quarter of fiscal year 2010)

Name of Company: **Chugai Pharmaceutical Co., Ltd.** April 23, 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: May 13, 2010
Date on which Dividend Payments to Commence: —

1. Consolidated Operating Results for the First Quarter of FY 2010 (January 1, 2010–March 31, 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 three months of FY 2010	¥87,084 million	(8.0)	¥11,078 million	(36.8)	¥12,054 million	(47.1)
First three months of FY 2009	¥94,690 million	—	¥17,531 million	—	¥22,797 million	—

	Net Income	% change	Net Income per Share (Basic)	Net Income per Share (Fully Diluted)
First three months of FY 2010	¥7,852 million	(43.0)	¥14.43	¥14.43
First three months of FY 2009	¥13,767 million	—	¥25.27	¥25.27

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 Mar. 31, 2010	¥511,136 million	¥428,357 million	83.4%	¥783.67
As of Dec. 31, 2009	¥540,549 million	¥434,686 million	80.0%	¥794.51

Reference: Shareholders' equity at March 31, 2010: ¥426,462 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	—				
FY ending Dec. 2010 (Forecast)		¥17.00	—	¥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
2nd Quarter (YTD)*	¥189,100 million	(1.4)	¥26,500 million	(28.7)	¥27,000 million	(37.9)
FY 2010	¥418,500 million	(2.4)	¥70,000 million	(15.3)	¥70,500 million	(22.0)

	Net Income	% Change	Net Income per Share (Basic)
2nd Quarter (YTD)*	¥16,700 million	(36.5)	¥30.69
FY 2010	¥44,000 million	(22.3)	¥80.85

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: No

3.=Year to date*

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

Newly added: — Excluded: —

(2) Application of simplified accounting methods and/or special accounting method for preparation of the quarterly consolidated financial statements: Yes

Note: For further details, please refer to the item “4. Others” on page 5 in the section of “Qualitative Information.”

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

(a) Changes accompanying revisions in accounting principles: None

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

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

(a) Number of shares at the end of the period (including treasury stock)

First quarter of FY 2010	559,685,889 shares
FY 2009	559,685,889 shares

(b) Number of treasury stock at the end of the period

First quarter of FY 2010	15,498,506 shares
FY 2009	15,497,079 shares

(c) Average number of shares issued during the period (three months)

First quarter of FY 2010	544,188,337 shares
First quarter of FY 2009	544,813,006 shares

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” on page 5 in the section of “Qualitative Information.”

Qualitative Information

1. Qualitative Information Regarding Operating Results (Consolidated)

(Billions of Yen)

	First three months of FY 2009.12 (Jan. 1, 2009–Mar.31, 2009)	First three months of FY 2010.12 (Jan. 1, 2010–Mar. 31, 2010)	% Change
Revenues	94.7	87.1	(8.0)
Sales (excluding Tamiflu)	72.5	75.4	+4.0
Cost of sales	43.7	41.1	(5.9)
Gross profit	51.0	46.0	(9.8)
SG&A (excl. R&D) expenses	21.6	22.8	+5.6
R&D expenses	11.8	12.2	+3.4
Operating income	17.5	11.1	(36.6)
Recurring profit	22.8	12.1	(46.9)
Net income	13.8	7.9	(42.8)

Consolidated revenues for the first quarter under review were ¥87.1 billion (a decrease of 8.0% year on year).

Sales of anti-influenza Tamiflu, which vary widely from year to year, amounted to ¥10.8 billion (a decline of 47.1%year on year). Excluding sales of Tamiflu and other operating revenues, which amounted to ¥0.9 billion (a decrease of 50.0% year on year), sales amounted to ¥75.4 billion (an increase of 4.0% year on year).

Domestic Sales (Excluding Tamiflu)

In the oncology field, sales amounted to ¥28.8 billion (an increase of 12.1% 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), and Xeloda (an anti-cancer agent and 5-FU derivative), 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 ¥13.0 billion (an increase of 6.6% 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 ¥12.5 billion (a decrease of 3.8% year on year). This decline was due to lower sales of Epogin (a recombinant human erythropoietin) as a result of more-intense competition.

In the transplant, immunology, and infectious disease field (excluding Tamiflu), sales were ¥5.3 billion (a decrease of 10.2% year on year). Although Pegasys (a peginterferon-α-2a) and Copegus (an anti-viral agent for the treatment of chronic hepatitis C in combination with Pegasys) came into wider use and steadily gained market share, it was outweighed by the impact of an overall decline in the market.

Tamiflu Anti-influenza Agent

Sales of Tamiflu for ordinary use in the first quarter amounted to ¥1.4 billion (a decline of 76.7% year on year). This drop was due to a decrease in the number of new influenza cases. Sales to government stockpiles in the first quarter were ¥9.5 billion (a decrease of 34.0% year on year).

Overseas Sales

Overseas sales amounted to ¥7.4 billion (an increase of 17.5% year on year). This rise was due to a rise in exports of Actemra to Roche. In the U.S., Actemra received approval from the U.S. Food and Drug Administration (FDA) in January 2010, and the marketing of this drug began the same month. At present, this drug is marketed in more than 25 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 ¥46.0 billion (a decline of 9.8% year on year).

Selling, general and administrative expenses excluding R&D expenses were ¥22.8 billion (an increase of 5.6% year on year), as a result of higher personnel costs and the costs of co-promotion of Actemra in Europe. R&D expenses amounted to ¥12.2 billion (an increase of 3.4% year on year).

As a consequence, operating income was ¥11.1 billion (a decrease of 36.6% year on year). Due to the decrease in gain on foreign exchange arising from forward foreign exchange contracts concluded to reduce the risk of foreign exchange transactions, recurring profit amounted to ¥12.1 billion (a decline of 46.9% year on year), and net income for the quarter was ¥7.9 billion (a decrease of 42.8% 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 first quarter under review, total assets on a consolidated basis amounted to ¥511.1 billion, representing a decline of ¥29.4 billion in comparison with the end of the previous fiscal year. This decrease was mainly due to a decline in trade notes and accounts receivable of ¥36.2 billion, which was partially offset by an increase in merchandise and finished goods of ¥7.7 billion.

Total liabilities on a consolidated basis stood at ¥82.8 billion, representing a decrease of ¥23.1 billion compared with the end of the previous fiscal year. Principal factors accounting for this decline were a decrease in income taxes payable of ¥15.6 billion and a decline in other current liabilities of ¥12.2 billion as a result of declines in other payables. These decreases were partially offset by an increase of ¥4.6 billion in the reserve for bonuses to employees. Net working capital (equivalent to current assets minus current liabilities) at the end of the quarter amounted to ¥306.3 billion.

Total net assets on a consolidated basis were ¥428.4 billion, ¥6.3 billion lower than at the end of the previous fiscal year. Although the Company reported net income for the quarter of ¥7.9 billion, retained earnings decreased ¥4.7 billion as a result of the payment of dividends from retained earnings amounting to ¥12.5 billion.

Cash Flows

Cash and cash equivalents at the end of the quarter under review amounted to ¥98.2 billion, representing an increase of ¥3.8 billion from the end of the previous fiscal year (versus ¥68.1 billion at the end of the same quarter of the previous fiscal year).

Net cash provided by operating activities amounted to ¥16.4 billion (compared with ¥13.0 billion for the same quarter of the previous fiscal year). This was due primarily to income before income taxes and minority interests for the quarter of ¥12.1 billion, a decrease in trade notes and accounts receivable of ¥36.1 billion, an increase in inventories of ¥7.5 billion, and income taxes paid of ¥22.3 billion.

Net cash provided by investing activities was ¥1.2 billion (compared with cash used in investing activities of ¥3.9 billion for the same quarter of the previous fiscal year). Principal factors accounting for this were as follows. Proceeds from withdrawal of time deposits exceeded payments into time deposits, resulting in a net cash inflow of ¥9.0 billion. Purchase of marketable and investment securities exceeded proceeds from sales of marketable and investment securities, resulting in a net cash outflow of ¥3.0 billion. In addition, cash outflow for purchases of noncurrent assets amounted to ¥4.7 billion.

Net cash used in financing activities amounted to ¥13.2 billion (compared with ¥11.0 billion for the same quarter of the previous fiscal year). This was due to an increase in cash dividends paid to ¥12.5 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 of ¥17 per share, bringing the total dividend per share to ¥23.

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.

3. Qualitative Information Regarding the Forecast for Consolidated Performance

The Company has not made any changes in its forecast of consolidated results for fiscal year ending December 2010 since the announcement regarding the forecast issued on February 3, 2010.

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

(a) Simplified methods of accounting

(Valuation of inventories)

In calculating the amount of inventories at the end of the first 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., related to the quarterly consolidated financial statements

None

5. Financial Statements

(1) Consolidated Balance Sheets

(Millions of Yen)

	As of March 31, 2010	As of December 31, 2009 (Summary)
Assets		
I Current assets:		
Cash and deposits	101,135	106,978
Trade notes and accounts receivable	85,433	121,607
Marketable securities	55,693	52,157
Merchandise and finished goods	79,422	71,699
Work in process	320	10
Raw materials and supplies	20,221	20,932
Deferred tax assets	23,622	21,058
Other	18,054	16,893
Reserve for doubtful accounts	(5)	(35)
Total current assets	383,897	411,302
II Noncurrent assets:		
1. Property, plant and equipment:		
Buildings and structures (net)	52,545	53,428
Other (net)	38,835	40,235
Total property, plant and equipment	91,381	93,663
2. Intangible assets:	2,956	3,244
3. Investments and other assets:		
Investment securities	9,461	9,657
Deferred tax assets	15,386	14,593
Other	8,247	8,306
Reserve for doubtful accounts	(193)	(219)
Total investments and other assets	32,901	32,338
Total noncurrent assets	127,239	129,246
Total assets	511,136	540,549

(Millions of Yen)

	As of March 31, 2010	As of December 31, 2009 (Summary)
Liabilities		
I Current liabilities:		
Trade notes and accounts payable	35,420	34,263
Income taxes payable	6,460	22,142
Reserve for bonuses to employees	10,324	5,731
Other reserves	2,492	3,219
Other	22,894	35,125
Total current liabilities	77,592	100,482
II Noncurrent liabilities:		
Reserves	3,481	3,471
Other	1,704	1,908
Total noncurrent liabilities	5,186	5,380
Total liabilities	82,779	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	303,320	307,984
4. Treasury stock, at cost	(36,276)	(36,274)
Total shareholders' equity	432,825	437,492
II Valuation and translation adjustments:		
1. Net unrealized gain on securities	1,849	1,636
2. Foreign currency translation adjustments	(8,212)	(6,767)
Total valuation and translation adjustments	(6,363)	(5,131)
III New share warrants	595	536
IV Minority interests	1,299	1,788
Total net assets	428,357	434,686
Total liabilities and net assets	511,136	540,549

(2) Consolidated Statements of Income

(Millions of Yen)

		First three months of FY 2009 (Jan. 1, 2009 – Mar. 31, 2009)	First three months of FY 2010 (Jan. 1, 2010 – Mar. 31, 2010)
I	Revenues:		
	Sales	92,902	86,190
	Other operating revenues	1,788	894
	Total revenues	94,690	87,084
II	Cost of sales:	43,735	41,066
	Gross profit	50,955	46,017
III	Selling, general and administrative expenses:		
	Sales promotion expenses	3,143	3,196
	Salaries and benefits	5,594	5,909
	Reserve for bonuses	2,634	2,842
	R&D expenses	11,830	12,165
	Retirement benefit	—	666
	Other	10,221	10,160
	Total selling, general and administrative expenses	33,424	34,939
	Operating income	17,531	11,078
IV	Non-operating income:		
	Interest income	233	86
	Gain on derivatives	4,485	—
	Gain on foreign exchange	—	774
	Other	721	389
	Total non-operating income	5,440	1,250
V	Non-operating expenses:		
	Interest expenses	12	0
	Loss on abandonment of noncurrent assets	107	3
	Loss on derivatives	—	76
	Other	54	193
	Total non-operating expenses	174	274
	Recurring profit	22,797	12,054
VI	Extraordinary gain:		
	Gain on sales of noncurrent assets	262	—
	Subsidy	—	50
	Total extraordinary gain	262	50
VII	Extraordinary loss:		
	Restructuring loss	5	36
	Loss on revaluation of investment securities	1	0
	Other	0	0
	Total extraordinary loss	8	36
	Income before income taxes and minority interests	23,052	12,067
	Income taxes current	9,663	7,442
	Income taxes deferred	(782)	(3,511)
	Total income taxes	8,881	3,930
	Minority interests	403	285
	Net income	13,767	7,852

(3) Consolidated Statements of Cash Flow

(Millions of Yen)

		First three months of FY 2009 (Jan. 1, 2009 – Mar. 31, 2009)	First three months of FY 2010 (Jan. 1, 2010 – Mar. 31, 2010)
I	Cash flows from operating activities:		
	Income before income taxes and minority interests	23,052	12,067
	Depreciation and amortization	4,180	4,111
	Impairment loss	0	—
	Interest and dividend income	(233)	(87)
	Interest expense	12	0
	Loss on disposal of noncurrent assets	10	20
	(Gain) on sales of noncurrent assets	(261)	0
	Loss on sales and revaluation of investment securities	1	0
	Decrease (increase) in notes and accounts receivable	(2,718)	36,080
	Decrease (increase) in inventories	266	(7,496)
	Increase in notes and accounts payable	5,168	1,209
	Other	(5,687)	(7,333)
	Subtotal	23,790	38,574
	Interest and dividends received	253	89
	Interest paid	(12)	(3)
	Income taxes paid	(11,024)	(22,297)
	Net cash provided by operating activities	13,006	16,362
II	Cash flows from investing activities:		
	Payments into time deposits	(9,035)	(2,649)
	Proceeds from withdrawal of time deposits	—	11,586
	Purchase of marketable securities	(31,488)	(33,697)
	Proceeds from sales of marketable securities	42,700	30,200
	Purchase of investment securities	(626)	(1)
	Proceeds from sales of investment securities	—	500
	Purchases of noncurrent assets	(5,755)	(4,746)
	Proceeds from sales of noncurrent assets	308	22
	Other	4	3
	Net cash (used in) provided by investing activities	(3,893)	1,217
III	Cash flows from financing activities:		
	Net (increase) in treasury stock	(4)	(2)
	Cash dividends paid	(10,371)	(12,525)
	Cash dividends paid to minority interests	(672)	(672)
	Other	(0)	(1)
	Net cash (used in) financing activities	(11,048)	(13,202)
IV	Effect of exchange rate changes on cash and cash equivalents	(583)	(624)
V	Net increase (decrease) in cash and cash equivalents	(2,518)	3,754
VI	Cash and cash equivalents at beginning of year	70,652	94,478
VII	Cash and cash equivalents at end of the period	68,133	98,232

(4) Notes Regarding Assumptions as a Going Concern

None

(5) Segment Information

Business Segments

For the first three months of FY 2009 (Jan. 1, 2009 – March 31, 2009) and the first three months of FY 2010 (Jan. 1, 2010 – March 31, 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 three months of FY 2009 (Jan. 1, 2009 – March 31, 2009) and the first three months of FY 2010 (Jan. 1, 2010 – March 31, 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 three months of FY 2009 (Jan. 1, 2009 – March 31, 2009)

As overseas revenues (¥7,972 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 three months of FY 2010 (Jan. 1, 2010 – March 31, 2010)

As overseas revenues (¥8,173 million) were less than 10% of consolidated totals, the disclosure of overseas revenues in countries or regions outside Japan has been omitted.

(6) Notes Regarding Major Changes in Shareholders' Equity

None