Supplemental Information

<Translation>

Financial Reporting Based on IFRS

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Forward-Looking Statements

This presentation may include forward-looking statements pertaining to the business and prospects of Chugai Pharmaceutical Co., Ltd. (the "Company"). These statements reflect the Company's current analysis of existing information and trends. Actual results may differ from expectations based on risks and uncertainties that may affect the Company's businesses.

The Adoption of IFRS

Why and How to Adopt IFRS

Purpose

Provide further transparency and comparability to both Japanese and overseas investors.

To align internal management metrics with external results and targets.

Method

Chugai meets requirements of "the Specified Company"*1 for IFRS adoption and will start the voluntary adoption of IFRS from FY2013.

The date of IFRS adoption: 1 January 2012 ← FY2012 is the comparison period

Chugai segment disclosed by Roche = Disclosure by Chugai + consolidation adjustment entries

FY2012 disclosure: Based on JGAAP

FY2013 forecast disclosure: Based on IFRS (Core-basis*2)

2013 Q1 and after: Based on IFRS

*1 Companies which meet all requirements for the voluntary adoption of IFRS by the Cabinet Office Ordinance (listed company / its parent company discloses F/S based on IFRS / the framework to disclose F/S base on IFRS established)

*2 Refer to page 11/12

What is Disclosed during the Transition Period

Business results and performance will be explained only by IFRS from 2013

	FY 2012	Q1-Q3 2013	FY 2013	Post FY 2014
Forecast	IFRS (2013)	As necessary	IFRS (2014)	IFRS (2015)
Pro-forma	IFRS (2011, 2012)			
Consolidated results	JGAAP	IFRS	IFRS	IFRS
Non-consolidated results	JGAAP	―	JGAAP	JGAAP
Reconciliation from JGAAP to IFRS	―	Reconciliations* for FY2012 and each quarter	Reconciliation for FY2012	―
Reference	―	―	Consolidated results by JGAAP and major differences IFRS vs. JGAAP	Major differences IFRS vs. JGAAP

Audited (applies to Consolidated results, Non-consolidated results and Reconciliation from JGAAP to IFRS)

* Explanation about differences (see page 9)

Impacts from the Adoption of IFRS

Major Differences*[1] in Accounting Policies between Chugai's IFRS and JGAAP

Category	Item	IFRS	JGAAP
Revenues	Sales	On arrival	On shipment
	Up-front income	Deferred income	One-time income
Operating Expense	Product intangible under development from 3rd parties/Roche	Capitalized	Expensed
	Depreciation (PP&E)	Straight-line method	Declining-balance method
	Amortisation (intangible assets)	Straight-line method	Straight-line method
	Startup and validation costs*[2]	Capitalized	Expensed*[3]
	Phase 4/post-marketing surveillance expenses	R&D	SG&A
	Administrative expenses incurred from corporate depts./General expenses	G&A	SG&A
	Extraordinary & non-operating items of JGAAP	Operating items*[4]	Extraordinary & non-operating items
Pensions	Pension benefit obligations (expense allocation method)	Projected unit credit method	Fixed unit credit method
	Actuarial gains and losses*[5], past service costs*[6]	Direct recognition	Deferred recognition

*[1] Include differences from not only GAAP but also accounting policy choices
*[2] Expenses related to trial production to get an approval before the full production
*[3] Capitalized saleable inventories
*[4] Financial income/cost excluded
*[5] Differences from performance of plan assets
*[6] Differences occurring from change of plans

Differences in FY2011 P/L

FY2011 Operating Profit: IFRS < JGAAP due to the reclassification of extraordinary loss etc.

Refer to page 19/20

(Billions of JPY)	IFRS	JGAAP	Diff.	Major causes (Impacts on IFRS profit)
Revenues	372.1	373.5	-1.4	
Sales	363.5	363.6	-0.2	
Royalties and other operating income	8.6	9.9	-1.3	Up-front income
Cost of Sales	-161.9	-157.5	-4.4	Loss on disaster, depreciation/amortisation
M&D	-69.0	-97.7	+28.7	Phase 4/post-marketing surveillance, SG&A
R&D	-70.5	-55.9	-14.7	Phase 4/post-marketing surveillance, depreciation
G&A	-11.2	-	-11.2	Separated from SG&A, extraordinary & non-operating items of JGAAP
Operating Profit	59.4	62.4	-3.0	IFRS +1.6 bn JPY excl. reclassified items
Profit before tax	60.6	57.1	+3.5	Timing of adoption of asset retirement obligations, discount rate of pension plan and above changes
Net Income	42.6	35.2	+7.4	Different impacts on deferred tax, non-controlling interest exemption and above changes

Differences in FY2012 Opening Net Assets

Major differences at the date of the adoption: PP&E and related deferred tax effects

(Billions of JPY)

JGAAP net assets	459.1	Major causes
PP&E	+60.4	Depreciation methods, Startup and validation costs
Intangible assets	+4.7	Product intangible under development
Pensions	+2.6	Direct recognition of differences in DBO*
Long-term Prepaid Expenses	+2.5	Startup and validation costs (outsource)
Inventory	-2.1	Mainly from changes in PP&E depreciation methods
Deferred income	-3.0	Mainly from up-front income
Accrued Vacation	-3.0	No recognition on JGAAP basis
Other differences	-0.2	
Income taxes	-22.0	Deferred tax differences due to the causes above
IFRS net assets	499.0	(+39.9)

*Actuarial gains and losses and past service cost

Changes in Management Metrics after the Adoption of IFRS

Core Operating Profit

Core operating profit: Alternative performance indicator to JGAAP operating profit

- ✓ To represent recurring profit trends by IFRS internally and externally
- ✓ To align with non-GAAP* indicators used at Roche and multinational pharmaceutical companies which are adopting IFRS in Europe
- ✓ To be used for the forecast to Tokyo Stock Exchange

Items to be excluded as Non-Core results

Intangible assets & Business Combinations → Managed as investments

- ✓ Acquisition accounting and other one-time impacts from alliance arrangements and business combinations
- ✓ Amortisation and impairment of intangible assets resulting from in-licensing activities

Other extraordinary events

- ✓ Major restructuring plans, discontinued operations, legal and environmental expenses
- ✓ Other non-pharma extraordinary events

e.g. : Loss on disaster, settlement of pension plan

Tax effect for the above items and amounts attributable to non-controlling interests

* Management metrics which are not determined in GAAP or Standards as company's own management purpose

Core Operating Profit in FY2011

Transparency maintained between IFRS and Core results

2011 (Billions of JPY)	IFRS	Intangible assets & Business Combinations	Other eliminated items	Core results
Revenues	**372.1**			**372.1**
Sales	363.5			363.5
Royalties and other operating income	8.6			8.6
Cost of sales	-161.9	0.8	4.3	-156.8
Gross profit	**210.2**	**0.8**	**4.3**	**215.3**
M&D	-69.0		0.6	-68.4
R&D	-70.5		0.0	-70.5
G&A	-11.2		0.6	-10.6
Operating profit	**59.4**	**0.8**	**5.5**	**65.8**
Financial income	2.2			2.2
Financial costs	-1.1			-1.1
Profit before taxes	**60.6**	**0.8**	**5.5**	**66.9**
Income taxes	-18.0	-0.3	-2.3	-20.6
Net income	**42.6**	**0.5**	**3.3**	**46.4**
Chugai shareholders	41.6	0.5	3.3	45.3
Non-controlling interests	1.0			1.0

Non-core items

- Intangible/Acquisition accounting
  Amortisation of intangible assets –0.8 bn JPY
  No impairment of intangible assets/No acquisition accounting

- Other excluded items
  Loss on disaster -5.1 bn JPY
  Environmental matter - 0.4 bn JPY
  No legal matters

	(Billions of JPY)
Core Net Income attribute to Chugai shareholders	45.3
	(Millions of shares)
Weighted average number of shares and equity securities in issue used to calculate diluted earnings per share	544
	(JPY)
Core earnings per share (diluted)	**83.27**

Payout Ratio after the Adoption of IFRS

Core results adopted as basis of internal and external performance evaluation

- ✓ Maintain more than an average of 40% as payout ratio after the adoption
- ✓ Core EPS used as the basis of the payout ratio

"Our basic policy is to pay stable dividends to shareholders. Accordingly, Chugai targets an average consolidated payout ratio of over 40% based on Core EPS."

e.g. 2011: Annual dividend 40JPY/share

①

	JGAAP		IFRS
EPS	64.75	EPS	76.37
Payout ratio	61.8%	Payout ratio	52.4%
		Core EPS	83.27
		Core payout ratio	48.0%

②

①Main difference caused by depreciation method and the tax reform impact
②Main difference caused by loss on disaster and depreciation of intangible assets

Operating Free Cash Flow

Adopt operating free cash flow for internal management metrics

Reorganize the result of cash flow based on IFRS (non-GAAP)

Operating free cash flow*

- ✓ Includes the elimination of all non-cash items from operating profit and includes changes in net working capital and capital expenditure on property, plant and equipment and intangible assets
- ✓ Consistent with operating profit and net operating assets (NOA)

* EBITDA is frequently used as a “cash earnings” metric, but actually it still includes many non-cash items such as provisions movements and pension costs.

Free Cash Flow (FCF) in FY2011

(Billions of JPY)	2011	2012	Difference of amount
Operating profit – IFRS basis	**59.4**		
Depreciation and impairment of property, plant and equipment	14.3		
Amortisation and impairment of intangible assets	0.8		
Other Operating profit cash adjustments*	4.3		
Operating profit, net of operating cash adjustments	**78.8**		
Decrease in trade accounts receivable	3.0		
Decrease in inventories	0.9		
(Decrease) in trade accounts payable	-2.3		
Other change in net working capitals	3.8		
Total (increase) decrease in net working capital	**5.4**		
Investment in property, plant and equipment	-14.6		
Investment in intangible assets	-0.6		
Total capital expenditure	**-15.2**		
Operating free cash flow	**69.0**		
as % of revenues	18.5%		
Treasury activities	2.2		
Tax paid	-11.8		
Dividends paid	-24.5		
Free cash flow	**34.9**		
Transaction in own equity instruments	-0.0		
Currency translation, fair value and other movements	-2.7		
Net change in net cash	**32.2**		

Other Operating profit cash adjustments include the elimination of non-cash working capital movements, such as increases/decreases in allowances for trade receivables and inventories . It also includes the replacement of the operating income/expenses for provisions equity compensation plans and disposals of property, plant and equipment and intangible assets with their cash equivalents.

Internal management indicator

Cash outflow due to M&A or acquiring subsidiary stock

CF incurred form increasing and decreasing of Marketable securities/interest-bearing dept is not included.

Differences in FCF and IFRS Cash Flow

FCF

(Billions of JPY)	2011	
Operating profit – IFRS basis	**59.4**	
Depreciation and impairment of property, plant and equipment	14.3	
Amortisation and impairment of intangible assets	0.8	
Other Operating profit cash adjustments*	4.3	
Operating profit, net of operating cash adjustments	**78.8**	Operating CF 84.2 bn JPY
Decrease in trade accounts receivable	3.0	
Decrease in inventories	0.9	
(Decrease) in trade accounts payable	-2.3	
Other change in net working capitals	3.8	
Total (increase) decrease in net working capital	**5.4**	
Investment in property, plant and equipment	-14.6	Investment CF -15.2 bn JPY
Investment in intangible assets	-0.6	
Total capital expenditure	**-15.2**	
Operating free cash flow	**69.0**	
as % of revenues	18.5%	
Treasury activities	2.2	Non-operating FCF -34.1 bn JPY
Tax paid	-11.8	
Dividends paid	-24.5	
Free cash flow	**34.9**	
Transaction in own equity instruments	-0.0	Other CF
Currency translation, fair value and other movements	-2.7	
Net change in net cash	**32.2**	Difference in definition

IFRS

FCF

(Billions of JPY)	2011年
Cash flows from operating activities	
Cash generated from operations	81.4
(Increase) decrease in working capital	5.4
Payments made for defined benefit post-employment plans	−2.7
Utilization of provisions	−0.5
Other operating cash flows	1.4
Cash flows from operating activities, before income taxes paid	85.0
Income taxes paid	−11.8
Total cash flows from operating activities	73.2
Cash flows from investing activities	
Purchase of property, plant and equipment	−14.6
Purchase of intangible assets	−0.6
Disposal of property, plant and equipment	0.1
Disposal of intangible assets	–
Interest and dividends received	0.5
Purchases of marketable securities	−142.4
Sales of marketable securities	138.5
Other investing cash flows	−0.2
Total cash flows from investing activities	−18.7
Cash flows from financing activities	
Interest paid	−0.1
Dividends paid	−23.4
Dividends paid - minority interests	−1.1
Redemption and repurchase of common shares	−0.0
Other financing cash flows	−0.0
Total cash flows from financing activities	−24.6
Net effect of currency translation on cash and cash	−0.6
Increase (decrease) in cash and cash equivalents	29.3

Reference: Net Operating Assets (NOA)

(Billions of Yen)	Opening balance of 2012	FY2012	Difference of amount
Trade accounts receivable	110.2		
Inventories	102.8		
Trade accounts payable	-17.4		
Other net working capital *1	-27.2		
Net working capital	**168.5**		
Property, plant and equipment	143.4		
Goodwill & intangible assets	6.5		
Other long-term assets -net *2	4.7		
Long-term net operating assets	**154.6**		
Net operating assets	**323.1**		
Debt	-0.2		
Marketable securities	75.2		
Cash and cash equivalents	94.5		
Net Cash	**169.5**		
Other non-operating assets - net *3	6.4		
Net non-operating assets	**175.9**		
Total net assets	**499.0**		

Available for calculation of Cash Conversion Cycle (CCC)

CCC (month) = [Trade AR ÷ Sales +(Inventories + Trade AP) ÷ COS]×12

Available for calculation of Return on NOA (RONOA) and Economic Profit (EP)

RONOA = Net income ÷ NOA
EP = Operating profit × (1-tax rate) – NOA × capital cost

Cash position

e.g. *1 accounts payable, accrued payables *2 long-term prepaid expenses *3 deferred income tax assets, income tax liabilities

Appendix

Major Differences in FY2011 P/L -1

① ~ ⑥ Refer to page 20

(billions of JPY)	IFRS 2011	differences in total	reclassification *1	measurement & others *2		JGAAP 2011	
Revenues	**372.1**	**-1.4**	**-0.6**	**-0.8**		**373.5**	**Revenues**
Sales	363.5	-0.2	0.0	-0.2		363.6	Sales
Royalties and other operating income	8.6	-1.3	-0.6	-0.7	①	9.9	Other revenues
Cost of sales	-161.9	-4.4	-6.1	1.7	②	-157.5	Cost of sales
Gross profit	**210.2**	**-5.8**	**-6.7**	**0.9**		**216.0**	**Gross profit**
M&D	-69.0	28.7	28.5	0.2		-97.7	SG&A
R&D	-70.5	-14.7	-15.2	0.5	②	-55.9	R&D
G&A	-11.2	-11.2	-11.1	-0.1			
Operating profit	**59.4**	**-3.0**	**-4.6**	**1.6**		**62.4**	**Operating profit**
Financial income	2.2	-0.1	-1.5	1.4	③	2.3	Non-op income
Financial costs	-1.1	0.1	0.4	-0.3	③	-1.2	Non-op expenses
		6.5	5.7	0.8	④	-6.5	Extraordinary gain/loss
Profit before taxes	**60.6**	**3.5**	**0.0**	**3.5**		**57.1**	**Profit before taxes**
Income taxes	-18.0	2.8	0.0	2.8	⑤	-20.9	
		1.0	0.0	1.0	⑥	-1.0	Minority interests
Net income	**42.6**	**7.4**	**0.0**	**7.4**		**35.2**	**Net income**

*1 Different account titles between IFRS and JGAAP
*2 Different recognition, timing, or amounts based on GAAP difference

Major Differences in FY2011 P/L -2

Major reclassification

JGAAP	IFRS	Contents	Impacts on IFRS profit (JPY)
Other operating revenues	M&D (reversal)	Reversal of co-promotion expense*	+0.6 bn
Operating expense	R&D	Phase 4/post-marketing surveillance expenses	-12.0 bn
	G&A	Administrative expenses from corporate depts.	-11.9 bn
	Cost of sales	Expenses from service cost center	-2.0 bn
	R&D		-3.7 bn
Non-operating income/expenses Extraordinary gains/losses	Cost of sales	Loss on disaster	-4.3 bn
	R&D		-0.6 bn
	G&A		-0.2 bn
	G&A	Non-op**, environmental matters	+0.6 bn

* Not relevant to profit-share
** Financial income/cost excluded

Major measurement /others

No. of page 19	IFRS	Contents	Impacts on IFRS profit (JPY)
①	Royalties and other operating income	Recognition of up-front income	-0.7 bn
②	Cost of Sales/R&D	Depreciation/ amortisation	+2.3 bn
③	Financial income/cost	Pensions (difference of discount rates for interest cost)	+0.5 bn
④	N/A	Timing of adoption of asset retirement obligations	+1.0 bn
⑤	Income taxes	Different impacts on deferred tax due to the tax reform	+3.5 bn
⑥	N/A	Different scope of net income	+1.0 bn

No major differences in purchase/impairment of intangible assets and validation costs in 2011

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