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 2008.12 ended December 31, 2008)

Name of Company: **Chugai Pharmaceutical Co., Ltd.** February 4, 2009
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. Toshiaki Itagaki, General Manager of Finance and Accounting Department
Phone: +81-(0) 3-3281-6611

Date of General Meeting of Shareholders: March 25, 2009
Date of Submission of Marketable Securities Filings: March 25, 2009
Date on which Dividend Payments to Commence: March 26, 2009

1. Consolidated Operating Results for the FY 2008.12 Ended December 31, 2008

(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. 2008	¥326,937 million	(5.2)	¥51,563 million	(22.7)	¥57,265 million	(15.4)
FY ended Dec. 2007	¥344,808 million	5.7	¥66,702 million	14.3	¥67,687 million	11.1

	Net Income	% Change	Net Income per Share (Basic)	Net Income per Share (Fully Diluted)
FY ended Dec. 2008	¥39,264 million	(2.0)	¥72.07	¥72.04
FY ended Dec. 2007	¥40,060 million	4.3	¥73.23	¥73.16

	Ratio of Net Income to Shareholders' Equity	Ratio of Recurring Profits to Total Assets	Ratio of Operating Income to Revenues
FY ended Dec. 2008	10.1%	12.2%	15.8%
FY ended Dec. 2007	10.4%	14.7%	19.3%

Notes: Equity-method earnings for the year ended December 31, 2008: none
Equity-method earnings for the year ended December 31, 2007: none

(2) Financial conditions

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
As of Dec. 31, 2008	¥478,517 million	¥397,066 million	82.6%	¥725.18
As of Dec. 31, 2007	¥458,942 million	¥385,797 million	83.5%	¥703.80

Notes: Shareholders' equity at December 31, 2008: ¥395,088 million
Shareholders' equity at December 31, 2007: ¥383,435 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. 2008	¥39,276 million	¥ (14,122) million	¥(18,360) million	¥70,652 million
FY ended Dec. 2007	¥60,364 million	¥ (7,509) million	¥(47,173) million	¥73,723 million

2. Dividends

	Dividends per Share				
	End of First Quarter	End of Second Quarter	End of Third Quarter	End of Fiscal Year	Annual
FY ended Dec. 2007	—	¥15.00	—	¥15.00	¥30.00
FY ended Dec. 2008	—	¥15.00	—	¥19.00	¥34.00
FY ending Dec. 2009 (Forecast)	—	¥17.00	—	¥17.00	¥34.00

	Total Dividends (Annual)	Dividend Ratio (Consolidated)	Ratio of Dividends to Net Assets (Consolidated)
FY ended Dec. 2007	¥16,343 million	41.0%	4.3%
FY ended Dec. 2008	¥18,524 million	47.2%	4.8%
FY ending Dec. 2009 (Forecast)	—	46.3%	—

3. Consolidated Forecasts for the Year Ending December 31, 2009 (January 1, 2009 - December 31, 2009)

	Revenues	% Change	Operating Income	% Change	Recurring Profit	% Change
Second Quarter (YTD)	¥199,500 million	36.8	¥35,000 million	51.4	¥35,500 million	46.0
FY 2009	¥400,000 million	22.3	¥63,000 million	22.2	¥63,500 million	10.9

	Net Income	% Change	Net Income per Share (Basic)
Second Quarter (YTD)	¥22,000 million	16.6	¥40.38
FY 2009	¥40,000 million	1.9	¥73.42

Note: % change figures for revenues, operating income, recurring profit, and net income are presented in comparison with the previous second quarter and fiscal year.

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, 2008: 559,685,889

Fiscal year ended December 31, 2007: 559,636,061

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

Fiscal year ended December 31, 2008: 14,872,196

Fiscal year ended December 31, 2007: 14,831,246

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 29.

(Additional Information)

Non-Consolidated Operating Results for the FY 2008.12 Ended December 31, 2008

(1) Non-consolidated results of operations

	Revenues	% Change	Operating Income	% Change	Recurring Profit	% Change
FY ended Dec. 2008	¥311,510 million	(5.4)	¥37,085 million	(34.3)	¥40,075 million	(30.1)
FY ended Dec. 2007	¥329,203 million	6.0	¥56,469 million	14.1	¥57,355 million	7.0

	Net Income	% Change	Net Income per Share (Basic)	Net Income per Share (Fully Diluted)
FY ended Dec. 2008	¥29,412 million	(13.0)	¥53.98	¥53.97
FY ended Dec. 2007	¥33,788 million	(3.2)	¥61.77	¥61.71

Note: % change figures for revenues, operating income, recurring profit, and net income are presented in comparison with the previous fiscal period.

(2) Non-consolidated financial conditions

	Total Assets	Net Assets	Equity Ratio	Net Assets per Share
As of Dec. 31, 2008	¥451,222 million	¥375,437 million	83.1%	¥688.51
As of Dec. 31, 2007	¥430,473 million	¥363,618 million	84.4%	¥667.17

Notes: Shareholders' equity for the year ended December 31, 2008: ¥375,111 million
Shareholders' equity for the year ended December 31, 2007: ¥363,478 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 page 3-4 for "Business Performance, 1. Analysis Concerning Business Performance."

Business Performance

1. Analysis Concerning Business Performance

(1) Overview of Fiscal Year 2008.12 ended December 31, 2008

a) Summary of Business Activities

During the period under review, the operating environment surrounding the pharmaceuticals industry in Japan remained extremely challenging due to continued government policies to reduce medical costs, including a reduction in drug price standards in April and the promotion of generic medicines.

In this business climate, we endeavored to engage in aggressive product research and development (R&D) activities to achieve the continued development and acquisition of innovative new drugs, in addition to implementing marketing campaigns based on sound ethical and scientific principles that promote appropriate drug use as well as consumer confidence.

As a result of these R&D activities, we received indication extensions for the anti-HER 2-humanized monoclonal antibody and anti-cancer agent Herceptin in Japan to cover the adjuvant treatment of post-operative breast cancer patients whose excess HER2 has been confirmed.

In addition, we received indication extensions for the humanized anti-human IL-6 receptor monoclonal antibody Actemra in Japan to cover the treatment of rheumatoid arthritis etc. In Europe, we received a notice of approval from CHMP (the Committee for Medicinal Products for Human Use) in November for Actemra, which we are developing jointly with F. Hoffman-La Roche Ltd. (Headquarters: Switzerland; hereinafter, Roche) for the treatment of rheumatoid arthritis. We also received a request of submission of further materials from the U.S. Food and Drug Administration (FDA) in September for approval of Actemra and are currently working together with Roche to respond to the request.

On the organizational front, to strengthen our functions for formulating strategies and plans related to strategic marketing and portfolio management, we have reorganized our consultative meetings for R&D. Under this reorganization, certain functions related to the formulation of strategies and plans have been shifted from the Executive Committee, and authority and responsibility for these functions has been delegated to a newly formed committee. As a result of this organizational change, we are working to significantly accelerate our decision-making functions.

In addition, we are continuing to move forward with our Business Process Reengineering (BPR) Project that we began in fiscal 2006 and working to create highly efficient corporate structures. Furthermore, we are working to strengthen internal control function to secure the rightness of the Company’s business.

Please note that we have established that in the clinical development of R744, which was being tested for the treatment of renal anemia, a former employee of the Company violated GCP (Good Clinical Practice: the implementation criteria for clinical trials as determined by Japan’s Health, Labour and Welfare Ministry) by improperly preparing a portion of the required documents. We reported these facts to the medical institutions involved immediately, and confirmed that the persons participating in the clinical trials have not experienced any damage to their health. Thereafter, we took steps to strengthen its systems for implementing clinical trials and supervisory systems to prevent a recurrence of such issues.

Consolidated revenues for the fiscal year amounted to ¥326,937 million, a decrease of 5.2% from the previous year. After the exclusion of revenues of anti-influenza Tamiflu, which vary widely from year to year, revenues amounted to ¥318,542 million, an increase of 4.0% over the previous year, the highest level for the Company in history.

Domestic product and merchandise sales (excluding Tamiflu) for the fiscal year rose 6.4% over the previous fiscal year, to ¥279,937 million, despite the dissolution of the sales tie-up with Sanofi-Aventis K.K. at the end of the prior year and the reduction in drug prices in April. By treatment domain in the domestic market, sales of oncology products as a whole rose a substantial 38.2%, to ¥102,296 million. This growth was a result of strong performances of Avastin (an anti-cancer agent / anti-vascular endothelial growth factor (VEGF) receptor humanized monoclonal antibody) and Tarceva (an anti-cancer agent / human epidermal growth factor receptor (EGFR) tyrosine kinase inhibitor) launched in 2007, as well as indication extensions for Herceptin and anti-cancer agent Xeloda. Sales of bone and joint treatments rose 7.3%, to ¥50,041 million, as Actemra received an indication extension for the treatment of rheumatoid arthritis. Sales in the transplant, immunity, and infectious diseases domain increased 31.8%, to ¥24,013 million, as a result of the increase in sales of peginterferon-alfa-2a Pegasys and anti-viral agent Copegus, which are used in combination for the treatment of chronic hepatitis C. On the other hand, sales in the renal treatment domain declined 11.9%, to ¥61,329 million, mainly due to the effect of a change in the settlement price for recombinant human erythropoietin Epogin.

Overseas product and merchandise sales increased 7.4%, to ¥33,502 million, owing to the reporting of exports of Actemra, but, as a result of a decline in royalties and other operating income, total overseas sales decreased 7.2%, to ¥33,803 million. The ratio of overseas sales to the Company’s total net sales was 10.3% for the fiscal year.

b) Financial Results

Profitwise, gross profit declined as a result of the decrease in royalties and other operating income, and operating income declined 22.7%, to ¥51,563 million, because of an increase in selling, general and administrative expenses owing to a rise in costs related to the promotion of and proper use of new products and products approved for new treatments as well as costs related to post-marketing surveillance activities. Also, recurring profit decreased 15.4%, to ¥57,265 million and net income decreased 2.0%, to ¥39,264 million, owing to foreign exchange gain and other factors.

Principal non-consolidated and consolidated performance figures, and the ratios between those figures, are as follows.

	Non-Consolidated (A) (Billions of Yen Rounded)	Consolidated (B) (Billions of Yen Rounded)	B/A (Times)
Revenues	311.5	326.9	1.05
Operating Income	37.1	51.6	1.39
Recurring Profit	40.1	57.3	1.43
Net Income	29.4	39.3	1.34

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, renal disease, and bone and joint disease domains. 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 costs totaled ¥53,225 million.

(2) Outlook for the Next Fiscal Year

a) Forecast Assumptions

In preparing this performance outlook, we have assumed exchange rates of JPY90/USD, JPY125/EUR, JPY135/GBP, and JPY85/CHF. With regard to sales of Tamiflu, which vary widely from year to year, we expect JPY53 billion for 2009, assuming that we will receive government stockpiling orders.

b) Outlook for Fiscal Year

We expect revenues of JPY 400.0 billion, an increase of 22.3% year-on-year, and revenues, excluding Tamiflu sales, of JPY 347.0 billion, an increase of 8.9%.

With regard to domestic sales from products and merchandises, excluding Tamiflu, we expect JPY309.7 billion, a double-digit growth of 10.6% year-on-year, due to significant sales growth that is expected in the disease areas of oncology, bone/joint and transplant/immunity/infection, and steady growth in the renal disease area.

As for overseas revenue, we expect overseas product sales to decrease by 17.3% year-on-year to JPY27.7 billion, mainly due to the appreciation of the yen, offsetting the increase in Actemra exports from new launches in European countries.

Also, we expect JPY9.7 billion, an increase of 90.2% year-on-year, from royalties and other operating income.

With regard to profitability, we expect an increase in SG&A expenses mainly due to investments for further market penetration of products launched or expanded for new indication in the past three years in Japan, an increase of post-marketing surveillance activities for those products, and an increase in expenses for full-fledged co-promotion activities of Actemra in Europe following its approval in January 2009. We also expect research and development expenditures to increase mainly due to an increase of expenses for projects in late stage clinical development, the enrichment of the line-up of early stage clinical development projects, and the expansion of investments in preclinical development.

However, we expect an increase in operating income at the same year-on-year rate as sales, because the increase of gross profit will absorb the increases of expenses. Growth rates in recurring profit and net income in the current year are forecasted to be smaller than that of operating income due to special factors in the previous year, such as a gain on foreign exchange and a gain on settlement of co-development costs.

(Billions of Yen)	Outlook for FY 2009	% Change
Revenues	400.0	22.3
excluding Tamiflu	347.0	8.9
Operating Income	63.0	22.2
Recurring Profit	63.5	10.9
Net Income	40.0	1.9

Note: The forecasts outlined above are based on information available at the time these forecasts were formulated, and we regard these forecasts as reasonable. Actual results and earnings could vary from the aforementioned forecasts as they also include risks and uncertainties.

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 ¥478,517 million, representing an increase of ¥19,575 million over the end of the previous fiscal year. Although the balance of marketable securities and investment securities declined, inventories and tangible fixed assets rose, contributing to the overall increase in total assets. Total liabilities stood at ¥81,451 million, representing an increase of ¥8,306 million over the end of the previous fiscal year. While accrued income taxes declined, trade notes and accounts payable as well as accrued expenses rose, thus bringing an overall rise in liabilities. Total net assets rose ¥11,268 million above those at the end of the previous fiscal year, to ¥397,066 million.

Please note that the Company continued to maintain a strong financial position, with net working capital (current assets minus current liabilities) of ¥265,830 million at the end of the fiscal year, a current ratio of 438.5% (compared with 472.5% at the end of the previous fiscal year), and a shareholders' equity ratio of 82.6% (compared with 83.5% at the previous fiscal year-end).

(2) Cash Flows

Cash and cash equivalents at the end of the fiscal year under review amounted to ¥70,652 million, down ¥3,070 million from the end of the previous fiscal year.

Net cash provided by operating activities amounted to ¥39,276 million, a decline of ¥21,088 million compared with the previous fiscal year. This was because of increases in income taxes paid and inventories as well as other factors.

Net cash used in investing activities was ¥14,122 million, ¥6,612 million greater than in the previous fiscal year. This rise in net cash used in investing activities was due to a decline in proceeds from the sales of securities and an increase in purchases of fixed assets.

Net cash used in financing activities amounted to ¥18,360 million, representing a decrease of ¥28,812 million year on year. This decline in cash outflow for financing activities was due to a net decline in purchases of treasury stock.

(3) Cash Flow Related Materials

	FY 2004.12 ended December 31, 2004	FY 2005.12 ended December 31, 2005	FY 2006.12 ended December 31, 2006	FY 2007.12 ended December 31, 2007	FY 2008.12 ended December 31, 2008
Equity ratio (%)	78.0	80.7	84.3	83.5	82.6
Market value equity ratio (%)	226.3	306.7	294.4	189.9	196.2
Interest-bearing debt to cash flows ratio (%)	—	—	—	1.0	0.4
Interest-coverage ratio (times)	169.3	284.8	283.0	461.9	517.5

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 sheet upon which interest is paid.
* The amount of paid interest column 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 short-term fluctuation in earnings by the effect of a flu epidemic as well as medium-to-long-term strategic investment funding needs and earnings prospects, we aimed to ensure a consolidated dividend payout ratio of 30% or more on average. To expand the return of profit for all shareholders while bringing the idea into focus, we freshly aim to ensure a consolidated dividend payout ratio of around 40% 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 dividends for the fiscal year ended December 31, 2008, are ¥19 per share. As a result, total dividends paid during the year are ¥34 per share, an increase of ¥4 from the previous fiscal year, and the consolidated dividend payout ratio is 47.2%.

In addition, we expect total dividends paid for the following fiscal year are ¥34 per share, including ¥17 for the interim period.

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 manufacturer capable of continuously delivering innovative new drugs, 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 status 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 drug price reform. The Company's business performance could be significantly affected by future developments in medical system reform, including 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.

(6) Strategic Alliance with Roche

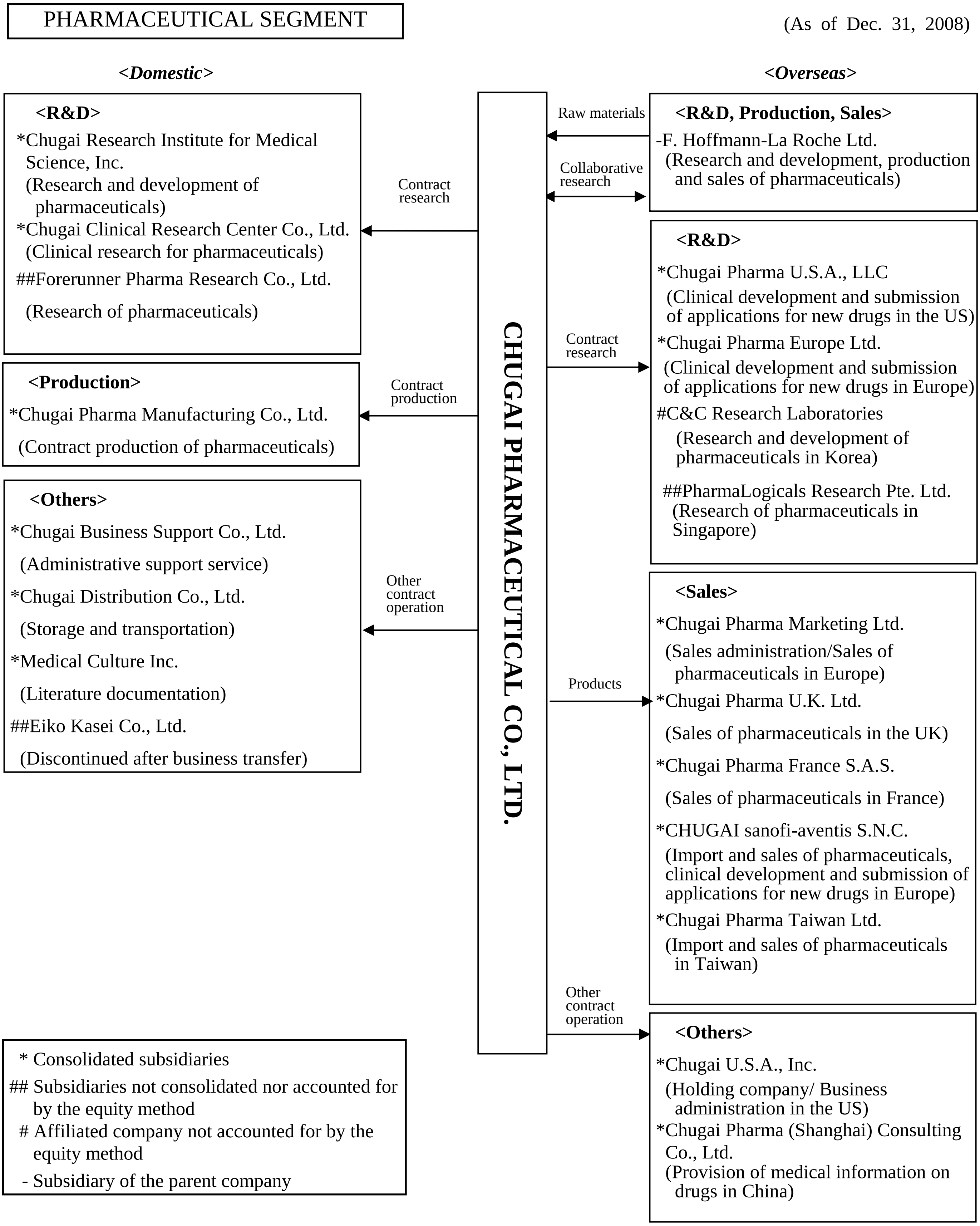
In line with its strategic alliance with Roche, we are the only pharmaceutical partner of Roche in the Japanese market and have introduced many products and projects from Roche. In the event that our strategic alliance with Roche is changed for some reason, such circumstances could have a major impact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

(7) Foreign Exchange-Rate Fluctuations

The Company's business activities include export and import transactions as well as royalties and other operating income denominated in foreign currencies. The Company hedges against exchange risk and similar risk through forward foreign exchange contracts and other means, but it is impossible to completely eliminate such risk, and there is a possibility of non-negligible adverse effects on the Company's business results and financial position from such risk.

Outline of Chugai Group

The Group consists of the Company submitting the consolidated financial statements, 18 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.



- There is no 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 27, 2008.

Management Principles and Goals

1. Basic Management Principles

In line with its strategic alliance with the world-leading pharmaceutical company Roche, Chugai Pharmaceutical 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 drugs 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 firmly believe that putting these Basic Management Principles into practice is a key to boosting the corporate value of the Chugai Group as well as the best way to meet the expectations of customers, shareholders, and all other stakeholders, and will redouble efforts to realize them.

2. Target Management Indices

The Company considers consolidated revenues and consolidated operating income to be important management indicators, and under its Mid-Term Business Plan "Sunrise 2012," which covers the period from fiscal 2008 through fiscal 2012, it has set targets for the year ending December 31, 2012, of ¥460 billion in consolidated revenues and ¥80 billion in consolidated operating income. The Company will aim to increase shareholder value and reach the goals of "Sunrise 2012" through growth and improvements in productivity.

3. Medium-Term Business Strategy

As a tightly focused prescription pharmaceuticals 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 our strategic partner Roche to enhance our clinical development pipeline and product lineup are moving forward.

Chugai's Mid-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 drugs in Japan and overseas.

4. Future Tasks

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 drugs, (2) the maximization of product value, and (3) overseas expansion as key tasks.

(1) Continued Development and Acquisition of Innovative New Drugs

The Company has worked to create innovative drugs through research into 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 drugs 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 achieved substantial growth in the domestic market. Going forward, Chugai is aiming to maximize product value and further increase its presence in such priority fields as cancer treatment through the further strengthening of strategic marketing efforts and an integrated approach to meeting the needs of the medical community, from the early stages of R&D through the post-launch of products.

(3) Overseas Expansion

For accelerating the Company's future growth, overseas expansion becomes the key challenge. Regarding Actemra, the Company made applications for approval in the United States and Europe in November 2007. As the countries give their approval, the Company will make this drug available on the market without delay and work together with Roche to engage in joint marketing and efforts to expand the use of Actemra.

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

5. Relationship with the Parent Companies and Related Parties

(1) Business Name of the Parent Companies, etc.

Parent Company, etc.	Attribute	Ratio of Ownership Voting Rights (%)	Stock Exchange where Shares Issued by Parent Company Are Listed
Roche Holding Ltd.	Parent company	61.5 (61.5)	Swiss Exchange NASDAQ (ADR)
Roche Finance Ltd.	Parent company	61.5 (61.5)	
Roche Pharmholding B.V.	Parent company	61.5	

Note: In parentheses, "Ratio of Ownership Voting Rights" ratios of indirect ownership, which is a breakdown, are shown.

(2) Business Name of the Most Influential Parent Company and the Reason of Influence

Business Name	Roche Holding Ltd.
Reasons	The two companies Roche Finance Ltd. and Roche Pharmholding B.V. are virtually holding companies. All decisions by the Roche Group are made by Roche Holding Ltd.

(3) Reason of Exemption from Timely Disclosure of Company Information on the Parent Companies that Are Not Listed

The parent companies are the issuers of the shares that are listed in foreign stock exchanges.

(4) Position of the Listed Company in the Group at the Parent Companies and Other Relations with the Parent Companies

a) Basic Alliance Agreement

As part of the Basic Alliance Agreement signed in December 2001, Roche and Chugai entered into certain arrangements covering the future operation and governance of Chugai starting in October 2002. Among other matters these cover the following areas:

- The structuring of the alliance
- Roche's rights as a shareholder
- Roche's rights to nominate members of Chugai's Board of Directors
- Certain limitations to Roche's ability to buy or sell Chugai's common stock

Chugai issues additional shares of common stock in connection with its convertible debt and equity compensation plans, and may issue additional shares for other purposes, which affects Roche's percentage ownership interest. The Basic Alliance Agreement provides, among other matters, that Chugai will guarantee Roche's right to maintain its shareholding percentage in Chugai at not less than 50.1%. Roche Holding Ltd. (Headquarters: Switzerland) owns about 59.9% of the Company's shares issued as of December 31, 2008, through its wholly owned affiliated company, Roche Pharmholding B.V. (Headquarters: Netherlands; hereinafter, Roche Pharmholding).

b) Licensing Agreements

Under the Japan Umbrella Rights Agreement signed in December 2001, Chugai has the right of first refusal regarding the development and marketing in Japan of drugs under development by Roche.

Also, under the Rest of the World Umbrella Rights Agreement signed in May 2002, Roche has the right of first refusal on the development and marketing of Chugai's development compounds in markets outside Japan, excluding South Korea, if Chugai decides that it requires a partner for such activities.

Further to these agreements, Roche and Chugai have signed a series of separate agreements for certain specific products. Depending on the specific circumstances and the terms of the agreement, this may result in payments on an arms-length basis between Roche and Chugai for any or all of the following matters:

- Upfront payments, if a right of first refusal to license a product is exercised
- Milestone payments, dependent upon the achievement of agreed performance targets
- Royalties on future product sales

These specific product agreements may also cover the manufacture and supply of the respective products to meet the other party's clinical and/or commercial requirements at an arms-length basis.

c) Research Collaboration Agreements

Roche and Chugai have entered into research collaboration agreements in the areas of small molecule synthetic drug research and biotechnology based drug discovery.

d) State of Independence from Parent Company

The aim of this alliance is to establish a new business model that differs from conventional practices in corporate acquisitions and the formation of joint ventures. Although Roche Pharmholding includes Chugai in its consolidated accounts, Chugai functions as an independent listed company and makes all of its own management decisions based on the principles of self-governance.

In addition, all transactions with the Roche Group are conducted in a fair manner at an arms-length basis.

As of December 31, 2008, 5 of Chugai's 14 directors were from the Roche Group. (One is Chairman of the Board of Directors of the Roche Group, three are members of the Roche Executive Committee, and one is Chugai's Executive Vice President came from the Roche Group.) Chugai maintains its management independence as fewer than half of its directors are members of the Roche Group. Furthermore, the Company has in place three outside directors who do not belong to the Roche Group with an eye to enhancing management independence.

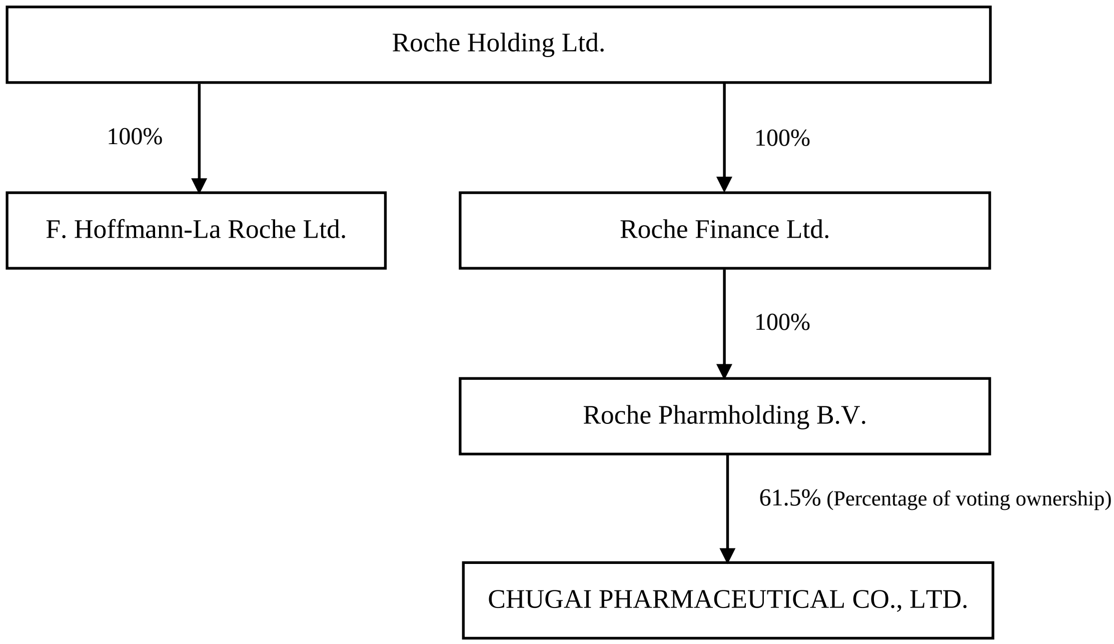
e) Tender Offer for the Shares of Chugai by Roche Pharmholding

Roche Pharmholding conducted a purchase of the Company's shares from the market in June 2008. As a result, the percentage ownership of Roche Pharmholding in the Company rose from 50.1% to 59.9%. This purchase was based on the rights of Roche Pharmholding to increase its ownership percentage to 59.9% in or after the fifth year following the integration in October 2002 as stipulated in the basic agreement on strategic alliance between the Company and Roche. Although the restriction on Roche Pharmholding's holdings of the Company's shares will be removed in the 10th year after the integration, both companies have agreed to cooperate in maintaining the Company's listing on the First Section of the Tokyo Stock Exchange.

As a result of the increase in ownership of the Company's shares by Roche Pharmholding, there is a possibility that relationships between the Roche Group and the Company will become stronger, and management believes this will establish a strong foundation for the Company's operations.

(5) Transactions with the Related Parties

These are expressed at the notes of the consolidated financial statements, "Transaction with the Related Parties".



Consolidated Balance Sheets

(Millions of Yen)

Accounts	As of December 31, 2007			As of December 31, 2008		
Assets			%			%
I Current assets:						
Cash and deposits		73,167			70,768	
Trade notes and accounts receivable		107,012			108,459	
Marketable securities		65,547			54,715	
Inventories		55,186			78,736	
Deferred tax assets		20,467			21,834	
Other		8,478			9,900	
Reserve for doubtful accounts		(53)			(60)	
Total current assets		329,807	71.9		344,353	72.0
II Fixed assets:						
1. Tangible fixed assets:						
Buildings and structures	108,279			122,968		
Accumulated depreciation	62,806	45,472		67,638	55,330	
Machinery and vehicles	68,522			75,736		
Accumulated depreciation	49,916	18,605		54,623	21,112	
Furniture and fixtures	33,721			35,298		
Accumulated depreciation	27,214	6,506		28,821	6,477	
Land		9,927			9,938	
Construction in progress		11,983			5,487	
Total tangible fixed assets		92,495	20.1		98,345	20.6
2. Intangible fixed assets:						
Software		2,652			2,469	
Other		1,071			636	
Total intangible fixed assets		3,724	0.8		3,106	0.6
3. Investments and other assets:						
Investment securities		16,832			14,387	
Long-term loans		64			44	
Deferred tax assets		8,991			12,197	
Other		7,269			6,308	
Reserve for doubtful accounts		(243)			(226)	
Total investments and other assets		32,915	7.2		32,711	6.8
Total fixed assets		129,134	28.1		134,163	28.0
Total assets		458,942	100.0		478,517	100.0

(Millions of Yen)

Accounts	As of December 31, 2007			As of December 31, 2008		
Liabilities			%			%
I Current liabilities:						
Trade notes and accounts payable		17,325			28,765	
Bonds maturing within one year		300			—	
Convertible bonds maturing within one year		42			—	
Other payables		5,201			7,053	
Accrued income taxes		16,325			11,381	
Deferred tax liabilities		0			—	
Accrued consumption taxes		1,164			270	
Accrued expenses		17,635			20,653	
Reserve for bonuses to employees		4,534			4,398	
Reserve for bonuses to directors		198			206	
Reserve for sales returns/rebates and other items		4,090			3,854	
Other		2,978			1,940	
Total current liabilities		69,797	15.2		78,523	16.4
II Fixed liabilities:						
Deferred tax liabilities		2			1	
Reserve for employees' retirement benefits		2,604			2,084	
Reserve for directors' retirement benefits		633			773	
Other		106			68	
Total fixed liabilities		3,346	0.7		2,927	0.6
Total liabilities		73,144	15.9		81,451	17.0

(Millions of Yen)

Accounts	As of December 31, 2007			As of December 31, 2008		
Net assets			%			%
I Shareholders' equity:						
1. Common stock		72,947	15.9		72,966	15.2
2. Additional paid-in capital		92,796	20.2		92,815	19.4
3. Retained earnings		248,098	54.1		271,008	56.6
4. Treasury stock, at cost		(35,108)	(7.7)		(35,168)	(7.3)
Total shareholders' equity		378,733	82.5		401,622	83.9
II Valuation and translation adjustments:						
1. Net unrealized gain on securities		2,757	0.6		1,354	0.3
2. Foreign currency translation adjustments		1,944	0.5		(7,889)	(1.7)
Total valuation and translation adjustments		4,701	1.1		(6,534)	(1.4)
III New share warrants		139	0.0		326	0.1
IV Minority interests		2,222	0.5		1,651	0.4
Total net assets		385,797	84.1		397,066	83.0
Total liabilities and net assets		458,942	100.0		478,517	100.0

Consolidated Statements of Income

(Millions of Yen)

Accounts	FY 2007.12 (Jan. 1, 2007 - Dec. 31, 2007)			FY 2008.12 (Jan. 1, 2008 - Dec. 31, 2008)		
			%			%
I Revenues						
Sales	332,943			321,835		
Royalties and other operating income	11,864	344,808	100.0	5,101	326,937	100.0
II Cost of sales:		137,293	39.8		127,029	38.9
Gross profit		207,514	60.2		199,908	61.1
III Selling, general and administrative expenses:						
Sales promotion expenses	13,066			15,515		
Salaries and benefits	27,264			29,587		
Reserve for bonuses	2,700			2,655		
R&D expenses	54,243			53,225		
Other	43,537	140,812	40.8	47,361	148,345	45.4
Operating income		66,702	19.3		51,563	15.8
IV Non-operating income:						
Interest income	1,345			1,608		
Dividend income	98			425		
Life insurance dividends received	314			332		
Gain on foreign exchange	575			6,254		
Gain on derivatives	368			—		
Other	1,610	4,312	1.3	1,306	9,928	3.0
V Non-operating expenses:						
Interest expense	176			134		
Loss on disposal of fixed assets	326			356		
Loss on inventories	2,236			1,914		
Loss on derivatives	—			1,341		
Other	587	3,327	1.0	477	4,225	1.3
Recurring profit		67,687	19.6		57,265	17.5
VI Extraordinary gain:						
Gain on sales of fixed assets	—			420		
Gains on the liquidation of affiliates	293			—		
Gains on settlement of co-development costs	—			6,340		
Subsidies received	—	293	0.1	500	7,261	2.2

(Millions of Yen)

Accounts	FY 2007.12 (Jan. l, 2007 - Dec. 31, 2007)			FY 2008.12 (Jan. 1, 2008 - Dec. 31, 2008)		
VII Extraordinary loss:			%			%
Loss on sales of fixed assets	—			10		
Impairment loss	32			747		
Loss on office realignment costs	1,520			536		
Retirement benefit expenses	—			107		
Loss on revaluation of investment securities	—	1,553	0.5	19	1,421	0.4
Income before income taxes and minority interests		66,427	19.3		63,105	19.3
Income taxes:						
Current	30,386			25,966		
Deferred	(5,849)	24,537	7.1	(3,690)	22,276	6.8
Minority interests		1,829	0.5		1,564	0.5
Net income		40,060	11.6		39,264	12.0

Consolidated Statements of Changes in Net Assets

FY 2007.12 (Jan. 1, 2007 – Dec. 31, 2007) (Millions of Yen)

	Shareholders' equity				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance as of Dec. 31, 2006	72,893	92,747	226,209	(7,590)	384,258
Changes:					
New stocks issuance	54	54			108
Dividends paid			(18,146)		(18,146)
Net income			40,060		40,060
Purchase of treasury stocks				(27,614)	(27,614)
Deposition of treasury stocks		(5)	(25)	97	66
Net changes except for shareholders' equity					
Net changes	54	49	21,889	(27,517)	(5,524)
Balance as of Dec. 31, 2007	72,947	92,796	248,098	(35,108)	378,733

(Millions of Yen)

	Valuation and translation adjustments			New share warrants	Minority interests	Total net assets
	Net unrealized gain on securities	Foreign currency translation adjustments	Total valuation and translation adjustments			
Balance as of Dec. 31, 2006	3,236	2,103	5,339	—	2,006	391,604
Changes:						
New stocks issuance						108
Dividends paid						(18,146)
Net income						40,060
Purchase of treasury stocks						(27,614)
Deposition of treasury stocks						66
Net changes except for shareholders' equity	(478)	(159)	(637)	139	215	(281)
Net changes	(478)	(159)	(637)	139	215	(5,806)
Balance as of Dec. 31, 2007	2,757	1,944	4,701	139	2,222	385,797

FY 2008.12 (Jan. 1, 2008 – Dec. 31, 2008) (Millions of Yen)

	Shareholders' equity				
	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance as of Dec. 31, 2007	72,947	92,796	248,098	(35,108)	378,733
Changes:					
New stocks issuance	19	18			37
Dividends paid			(16,344)		(16,344)
Net income			39,264		39,264
Purchase of treasury stocks				(86)	(86)
Disposition of treasury stocks			(9)	26	17
Net changes except for shareholders' equity					
Net changes	19	18	22,910	(59)	22,888
Balance as of Dec. 31, 2008	72,966	92,815	271,008	(35,168)	401,622

(Millions of Yen)

	Valuation and translation adjustments			New share warrants	Minority interests	Total net assets
	Net unrealized gain on securities	Foreign currency translation adjustments	Total valuation and translation adjustments			
Balance as of Dec. 31, 2006	2,757	1,944	4,701	139	2,222	385,797
Changes:						
New stocks issuance						37
Dividends paid						(16,344)
Net income						39,264
Purchase of treasury stocks						(86)
Deposition of treasury stocks						17
Net changes except for shareholders' equity	(1,403)	(9,833)	(11,236)	186	(570)	(11,620)
Net changes	(1,403)	(9,833)	(11,236)	186	(570)	11,268
Balance as of Dec. 31, 2007	1,354	(7,889)	(6,534)	326	1,651	397,066

Consolidated Statements of Cash Flows

(Millions of Yen)

Accounts	FY 2007.12 (Jan. 1, 2007-Dec. 31, 2007)	FY 2008.12 (Jan. 1, 2008-Dec. 31, 2008)
I Cash flows from operating activities:		
Income before income taxes and minority interests	66,427	63,105
Depreciation and amortization	14,913	20,080
Impairment loss	32	747
Increase (decrease) in reserve for employees’ retirement benefits	(1,534)	(510)
Interest and dividend income	(1,444)	(2,033)
Interest expense	176	134
Loss on disposal of fixed assets	326	356
Loss (gain) on sales of fixed assets	34	(410)
Loss (gain) on sales and revaluation of investment securities	21	19
Decrease (Increase) in notes and accounts receivable	(1,257)	(2,504)
Decrease (increase) in inventories	6,174	(25,561)
Increase (decrease) in notes and accounts payable	(10,709)	12,291
Increase (decrease) in accrued consumption tax	1,128	(2,036)
Others	5,639	4,236
Subtotal	79,929	67,916
Interest and dividends received	1,365	1,585
Interest paid	(176)	(134)
Income taxes paid	(20,754)	(30,090)
Net cash provided by operating activities	60,364	39,276
II Cash flows from investing activities:		
Payments into time deposits	—	(137)
Purchases of marketable securities	(225,852)	(187,595)
Proceeds from sales of marketable securities	242,900	202,000
Purchases of investment securities	(3,504)	(4,005)
Proceeds from sales of investment securities	1,335	379
Purchases of fixed assets	(22,596)	(25,222)
Proceeds from sales of fixed assets	191	429
Net decrease in short-term loans	2	—
Net decrease in long-term loans	14	30
Net cash used in investing activities	(7,509)	(14,122)
III Cash flows from financing activities:		
Redemption of bonds	(0)	(304)
Net increase in treasury stock	(27,517)	(69)
Cash dividends paid	(18,136)	(16,335)
Cash dividend paid to minority interests	(1,519)	(1,651)
Net cash used in financing activities	(47,173)	(18,360)
IV Effect of exchange rate changes on cash and cash equivalents	(291)	(9,864)
V Net decrease in cash and cash equivalents	5,390	(3,070)
VI Cash and cash equivalents at beginning of year	68,332	73,723
VII Cash and cash equivalents at end of year	73,723	70,652

Events or circumstances that cast major doubt on the assumption of continued operations

None applicable

Basis of Preparing Consolidated Financial Statements

FY 2007.12 (Jan. 1, 2007 - Dec. 31, 2007)	FY 2008.12 (Jan. 1, 2008 - Dec. 31, 2008)
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: 3 companies Eiko Kasei Co., Ltd., 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: 3 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: Eiko Kasei Co., Ltd., 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 other than work in process are stated at cost determined principally by the average method. - Work in process is stated at cost determined principally by the first-in, first-out method.	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 2007.12 (Jan. 1, 2007 - Dec. 31, 2007)	FY 2008.12 (Jan. 1, 2008 - Dec. 31, 2008)
(2) Method of depreciation a. Tangible fixed assets Depreciation of tangible fixed assets is calculated primarily by the declining-balance method. b. Intangible fixed assets Depreciation of intangible fixed assets is calculated primarily by the straight-line method. Depreciation of software for internal use is calculated based on its usable period (five years). (Change in accounting policies) Attendant with revisions to the corporate tax code, the Company and its domestic subsidiaries have changed from the fiscal period under review the depreciation method we use for all tangible fixed assets aside from buildings (excluding facilities installed in said buildings) acquired from April 1, 2007, based on the amended corporate tax code. As a result of these changes, operating income, recurring profit, and income before income taxes and minority interests have fallen by ¥362 million, respectively. In addition, because of the time required to change over our depreciation system, we employed existing depreciation methods for the first half of the current consolidated fiscal year. However, if the same methods we plan to use in the full consolidated fiscal year were applied in the fiscal half, the impact on earnings would be immaterial.	(2) Method of depreciation a. Tangible fixed assets Depreciation of tangible fixed assets is calculated primarily by the declining-balance method. b. Intangible fixed assets Depreciation of intangible fixed assets is calculated primarily by the straight-line method. Depreciation of software for internal use is calculated based on its usable period (five years). （Additional information） Accompanying revisions in the tax law, for those tangible fixed assets, other than buildings (excluding building fixtures and equipment) that were purchased on or before March 31, 2007, the Company and its consolidated subsidiaries are reporting depreciation of the 5% residual value, minus a remainder price, that would have remained under the methods of depreciation stipulated by the previous tax law in equal amounts over a five-year period. As a result, operating income, recurring profit, and income before income taxes and minority interests were each ¥410 million lower than they would have been in the absence of this change in the method of calculating depreciation.
(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 revaluation 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 loss and the possibilities of future loss on financial instruments. 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. 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. 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 computed based on the sales amount, and any amounts related to returned goods in subsequent years are estimated and included in this reserve. Please note that as regards the reserve for adjustments due to returned goods, the amounts of the provision to and balance in that reserve are not material, and, for that reason, beginning with the consolidated financial statements for the fiscal year under review, that reserve has been included in the reserve for sales rebates, etc., and the provision to the reserve for adjustments due to returned goods has been included in cost of goods sold.	(3) Accounting for important reserves a. Reserve for doubtful accounts Same as in the left. b. Reserve for bonuses to employees Same as in the left. 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 computed based on the sales amount, and any amounts related to returned goods in subsequent years are estimated and included in this reserve.

FY 2007.12 (Jan. 1, 2007 - Dec. 31, 2007)	FY 2008.12 (Jan. 1, 2008 - Dec. 31, 2008)
e. Reserve for employees' retirement benefits The reserve for employees' retirement benefits is stated at the amount required to cover the liabilities as of the balance sheet date, and is based on the Company's estimate of its liability for retirement benefits and pension assets as of the balance sheet date. This reserve also includes the amount which would be required to be paid if all eligible employees of domestic consolidated subsidiaries voluntarily terminated their employment as of the balance sheet date. 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 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. The reserve for employees' retirement benefits of the foreign subsidiaries is calculated in conformity with accounting standards of their countries of domicile.	e. Reserve for employees' retirement benefits The reserve for employees' retirement benefits is stated at the amount required to cover the liabilities as of the balance sheet date, and is based on the Company's estimate, and the estimates of certain of its domestic consolidated subsidiaries of their liabilities for retirement benefits and pension assets as of the balance sheet date. This reserve also includes the amount which would be required to be paid if all eligible employees of the other domestic consolidated subsidiaries voluntarily terminated their employment as of the balance sheet date. 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 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. The reserve for employees' retirement benefits of the foreign subsidiaries is calculated in conformity with accounting standards of their countries of domicile.
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.	f. Reserve for officers' retirement benefits Same as in the left.
(4) Foreign currency translation The revenue and expense accounts of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, and, except for the components of shareholders' equity, the balance sheet accounts are also translated at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical rates. Translation differences are presented as translation adjustments in shareholders' equity of the accompanying consolidated financial statements. （Change in accounting policies） The Company has been translating earnings and expenses at overseas subsidiaries into yen terms based on spot rates in the foreign currency exchange market at the balance sheet date, but we have switched to using the averages of foreign currency exchange rates in the fiscal year under review as our method for foreign currency translation into yen terms. We have changed to this accounting policy to properly reflect in our consolidated financial statements profits/losses that occur throughout the accounting period by using an average of the impact of temporary movements in foreign currency exchange rates on periodic profits/losses. As a result of this change, compared with our previous method, revenues are ¥1,249 million higher, operating income is ¥408 million higher, recurring profit is ¥486 million higher, and income before income taxes and minority interests is ¥447 million higher.	(4) Foreign currency translation The revenue and expense accounts of the foreign consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, and, except for the components of net assets, the balance sheet accounts are also translated at the rates of exchange in effect at the balance sheet date. The components of net assets are translated at their historical rates. Translation differences are presented as translation adjustments in net assets of the accompanying consolidated financial statements.

FY 2007.12 (Jan. 1, 2007 - Dec. 31, 2007)	FY 2008.12 (Jan. 1, 2008 - Dec. 31, 2008)
(5) Accounting for lease transactions Non-cancelable lease transactions are primarily accounted for as operating leases (whether such leases are classified as operating or finance leases) except that lease agreements that stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases. The foreign consolidated subsidiaries' accounting treatment of fixed assets including lease transactions is accounted for in accordance with their countries' accounting standards.	(5) Accounting for lease transactions Same as in the left.
(6) Other Income and expenses for the Company and its domestic subsidiaries are recorded at net of consumption tax.	(6) Other Same as in the left.
5. Basis of evaluation of consolidated subsidiaries Inter-company investments and the net equity of companies acquired are eliminated in accordance with the partial fair value method. This means that a portion of the assets and liabilities of the subsidiary that is allocable to the parent is re-measured at fair value as of the date of the investment, and the remaining portion of the assets and liabilities to be allocated to the minority interest(s) is carried at book value.	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 2007.12 (Jan. 1, 2007 - Dec. 31, 2007)	FY 2008.12 (Jan. 1, 2008 - Dec. 31, 2008)
Accounting standards relating to stock options From the fiscal period under review, the Company has adopted a new accounting standard, “Accounting Standard for Stock Options” (Accounting Standard Statement, No. 8, issued on December 27, 2005) and “Guidance on Accounting Standard for Stock Options” (Accounting Standard Guidance, No. 11, issued on May 31, 2006). Based on the adoption of these, operating income, recurring profit, and income before income taxes and minority interests were ¥139 million lower, respectively.	------------------
Change in booking classification for royalties and other operating income Regarding revenues from patent rights fees and licensing agreement fees, the Company has recorded these on the consolidated income statement either as a part of non-operating income or extraordinary profit, but attendant with the steady progress of and our proactive efforts in R&D activities, we expect the licensing out of our research results to yield a steady stream of related income in the future. In view of the increasing importance of this income in terms of monetary size, we will book this income as a part of revenues from the fiscal period under review. As a result of this change, compared with reported figures under the standard we applied previously, both revenues and operating income increased by ¥11,864 million and recurring profit increased by ¥10,941 million. This change did not impact income before income taxes and minority interests.	------------------

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 25, 2009. 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 Products & Exchange Law.

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

(Segment Information)

(1) Business Segments

For the year ended Dec. 31, 2007 (Jan. 1, 2007 - Dec. 31, 2007) and
For the year ended Dec. 31, 2008 (Jan. 1, 2008 - Dec. 31, 2008)

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, 2007 (Jan. 1, 2007 - Dec. 31, 2007) and
For the year ended Dec. 31, 2008 (Jan. 1, 2008 - Dec. 31, 2008)

As net sales 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 Sales

For the year ended Dec. 31, 2007 (Jan. 1, 2007 - Dec. 31, 2007)

(Millions of Yen)

Overseas sales	¥ 36,443
Net sales	344,808
% of net sales	10.6

Notes:
1. Overseas sales are defined as sales made by the Company and its consolidated subsidiaries in countries or regions outside Japan.
2. Information on sales by a country or regional classification has been omitted because the amounts of sales by principal countries and regions are not material.

For the year ended Dec. 31, 2008 (Jan. 1, 2008 - Dec. 31, 2008)

(Millions of Yen)

Overseas sales	¥ 33,803
Net sales	326,937
% of net sales	10.3

Notes:
1. Overseas sales are defined as sales made by the Company and its consolidated subsidiaries in countries or regions outside Japan.
2. Information on sales by a country or regional classification has been omitted because the amounts of sales by principal countries and regions are not material.

(Transaction with the Related Parties)

For the year ended Dec. 31, 2007 (Jan. 1, 2007 - Dec. 31, 2007)

(1) Parent Company

Attribute	Name of company	Address	Common stock	Business contents	Rate of ownership of voting	Relationship		Transaction	Amount of transaction (*)	Account	Ending balance (*)
						Interlocking directors	Relationship on business				
Parent company	Roche Pharmholding B.V.	Woerden, Netherlands	Euros 467,847,857	Holding company	Directly owned 51.5%	—	Equity participation and partnership	Acceptance of bonds with warrant right	—	Bond	300
								Payment of bond interest	2	Accrued expenses	0

(*): Millions of Yen

Note: “Amount of transaction” and “Ending balance” are reported net of consumption taxes.

(2) Subsidiary of Parent Company

Attribute	Name of company	Address	Common stock	Business contents	Rate of ownership of voting	Relationship		Transaction	Amount of transaction (*)	Account	Ending balance (*)
						Interlocking directors	Relationship on business				
Subsidiary of parent company	F. Hoffmann-La Roche Ltd.	Basel, Switzerland	Swiss francs 150,000,000	Production and sales of drugs	—	Directors 2 persons	Material purchase	Material purchase	54,278	Accounts payable	10,608

(*): Millions of Yen

Note: “Amount of transaction” and “Ending balance” are reported net of consumption taxes.

Guideline of determination for business conditions

- Business transactions are determined as the same as the general transactions when considering market value.

- Funds transactions reasonably determine interest rates when considering market interest rates.

For the year ended Dec. 31, 2008 (Jan. 1, 2008 - Dec. 31, 2008)

Subsidiary of Parent Company

Attribute	Name of company	Address	Common stock	Business contents	Rate of ownership of voting	Relationship		Transaction	Amount of transaction (*)	Account	Ending balance (*)
						Interlocking directors	Relationship on business				
Subsidiary of parent company	F. Hoffman-La Roche Ltd.	Basel, Switzerland	Swiss francs 150,000,000	Production and sale of drugs	—	Directors 2 persons	Material purchase	Material purchase	69,695	Accounts payable	21,451

(*): Millions of Yen

Note: “Amount of transaction” and “Ending balance” are reported net of consumption taxes.

Guideline of determination for business conditions

- Business transactions are determined as the same as general transactions when considering market value.

(Tax-Effect Accounting)

FY 2007.12 (As of Dec. 31, 2007)

(1) Principal deferred tax assets and tax liabilities

	(Millions of Yen)
Deferred tax assets:	
Prepaid expenses for tax purposes	5,926
Unrecognized reserve for retirement benefits	4,967
Depreciation of fixed assets in excess of limit	3,917
Goods in storage for tax purposes	3,576
Amortization of deferred charges in excess of limit for tax purposes	2,313
Elimination of unrealized profit on inventories	2,081
Unrecognized losses on securities	1,940
Unrecognized reserve for bonuses to employees	1,831
Unrecognized reserve for sales rebates	1,651
Unrecognized outstanding enterprise tax	1,304
Unrecognized reserve for bonuses to directors	255
Impairment loss	84
Other	4,643
Total deferred tax assets	34,495
Valuation reserve	(2,537)
Offsetting of deferred tax liabilities	(2,498)
Net deferred tax assets	29,459
Deferred tax liabilities:	
Unrealized gain on securities	1,866
Reserve for deferred capital gain	631
Other	3
Total deferred tax liabilities	2,502
Offsetting of deferred tax assets	(2,498)
Net deferred tax liabilities	3

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

Statutory tax rate:	40.4%
(Reconciliation)	
Entertainment expenses, etc.	2.3
Dividends received, etc.	(0.0)
Per capita inhabitant tax	0.2
Tax rate difference of foreign consolidated subsidiaries, etc.	(1.3)
Special tax deduction for research and development expenses	(6.4)
Increase in valuation reserves	2.2
Other	(0.3)
Effective tax rate	36.9%

FY 2008.12 (As of Dec. 31, 2008)

(1) Principal deferred tax assets and tax liabilities

	(Millions of Yen)
Deferred tax assets:	
Prepaid expenses for tax purposes	8,531
Depreciation of fixed assets in excess of limit	5,214
Unrecognized reserve for retirement benefits	4,838
Amortization of deferred charges in excess of limit for tax purposes	3,145
Elimination of unrealized profit on inventories	2,923
Goods in storage for tax purposes	2,206
Unrecognized reserve for bonuses to employees	1,765
Unrecognized reserve for sales rebates	1,481
Unrecognized losses on securities	1,171
Unrecognized outstanding enterprise tax	978
Impairment loss	376
Unrecognized reserve for bonuses to directors	312
Other	4,155
Total deferred tax assets	37,102
Valuation reserve	(1,568)
Offsetting of deferred tax liabilities	(1,500)
Net deferred tax assets	34,032
Deferred tax liabilities:	
Unrealized gain on securities	917
Reserve for deferred capital gain	583
Other	1
Total deferred tax liabilities	1,501
Offsetting of deferred tax assets	(1,500)
Net deferred tax liabilities	1

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

Statutory tax rate:	40.4%
(Reconciliation)	
Entertainment expenses, etc.	2.9
Dividends received, etc.	(0.1)
Per capita inhabitant tax	0.2
Tax rate difference of foreign consolidated subsidiaries, etc.	(1.7)
Special tax deduction for research and development expenses	(4.9)
Decrease in valuation reserves	(1.5)
Other	0.2
Effective tax rate	35.3%

(Accounting for Retirement Benefits)

FY 2007.12 (Jan. 1, 2007 - Dec. 31, 2007)	FY 2008.12 (Jan. 1, 2008 - Dec. 31, 2008)
(1) Overview of retirement benefits The Company has a welfare pension fund plan as a defined benefit plan and a lump-sum payment plan. In October 2004, the Company transferred from a tax-qualified pension plan to a defined contribution pension plan, because a tax-qualified pension plan was closed. The Company received approval of the return of the pension plan assets related to prior employee services with respect to the substituted portion of the welfare pension plan. The approval was received from the Minister of Health, Labour and Welfare in August 2005. The Company transferred the taxable portion of the employee pension fund to the defined contribution pension plan. The Company set up an employee retirement benefit trust in December 2004 for the lump-sum payment plan. In addition, the Company has the possibility to pay extra retirement benefits, excluding the scope of retirement benefit obligation by actuarial calculation in line with accounting for retirement benefits, when an employee retires. The Company's domestic consolidated subsidiaries participate in the lump-sum payment plan.	(1) Overview of retirement benefits Same as in the left.

(2) Retirement benefit obligation

(Millions of Yen)

	FY 2007.12	FY 2008.12
Retirement benefit obligation	(61,481)	(63,061)
Pension assets	62,732	58,069
Unfunded retirement benefit obligation	1,251	(4,991)
Unrecognized prior service cost	(2,926)	(2,324)
Unrecognized actuarial loss	(648)	5,501
Net amount recorded in the consolidated balance sheets	(2,323)	(1,813)
Prepaid pension cost	280	270
Reserve for employees' retirement benefits	(2,604)	(2,084)

Notes:

FY 2007.12: The Company's domestic consolidated subsidiaries adopt the simplified method on calculating the retirement benefit obligation.

FY 2008.12: The Company's domestic consolidated subsidiaries adopted the simplified method on calculating the retirement benefit obligation.

(3) Retirement benefits expenses

(Millions of Yen)

	FY 2007.12	FY 2008.12
Service cost (*)	2,587	2,599
Interest cost	1,345	1,371
Expected return on pension assets	(1,379)	(1,377)
Amortization of actuarial gain or loss	(536)	(133)
Amortization of prior service cost	(759)	(602)
Contribution to a defined contribution pension plan	741	754
Provisional payments of additional retirement benefits	657	
Amount treated as expense accompanying change from the simplified method to the method in principle*		107
Total retirement benefit expenses	2,655	2,718

Notes:

FY 2007.12: Retirement benefits expenses of consolidated subsidiaries that adopted the simplified method are included to this amount.

FY 2008.12:
1. Retirement benefits expenses of consolidated subsidiaries that adopted the simplified method are included to this amount.
2. In calculating retirement benefit obligations for the consolidated financial statements, one consolidated domestic subsidiary changed from the simplified method to the method in principle. Accompanying this change, the Company treated the liability of ¥107 million, which remained unrecognized at the beginning of the fiscal period, as a one-time expense.

FY 2007.12 (Jan. 1, 2007 - Dec. 31, 2007)	FY 2008.12 (Jan. 1, 2008 - Dec. 31, 2008)
(4) Assumptions and policies adopted in calculation of retirement benefits obligation Discount rate: 2.25% Rate of expected return on plan assets: 0.7%~2.5% Method of attribution of retirement benefits to the period: 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: 10 years (Actuarial gain and loss are amortized by the declining 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 benefits obligation Discount rate: 2.25% Rate of expected return on plan assets: 0.7%~2.5% Method of attribution of retirement benefits to the period: 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: 10 years (Actuarial gain and loss are amortized by the declining 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 2007.12 (As of Dec. 31, 2007)	FY 2008.12 (As of Dec. 31, 2008)
Net assets per share	¥703.80	¥725.18
Net income per share	73.23	72.07
Net income per share after adjustment for latent stock	73.16	72.04

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

	FY 2007.12 (As of Dec. 31, 2007)	FY 2008.12 (As of Dec. 31, 2008)
Net income per share		
Net income	¥40,060 million	¥39,264 million
Value not attributed to common stock	— million	— million
Net income attributed to common stock	40,060 million	39,264 million
Average number of outstanding shares during the period	547,036,616 shares	544,820,544 shares
Net income per share after adjustment for latent stock		
Net income adjustment value	¥ 2 million	¥ 1 million
(Including interest paid (after deduction of applicable tax amounts))	(2) million	(1) million
(Including bond-related fees (after deduction of applicable tax amounts)	(0) million	(0) million
Increase in number of outstanding shares	554,350 shares	202,440 shares
(Including convertible bonds)	(125,372) shares	(194,793) shares
(Including new share warrants)	(428,978) shares	(7,647) 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: 1 type Resolution by the Board of Directors on March 23, 2007: Number of latent shares: 355,000 shares Number of rights to purchase new shares: 3,550 rights	Rights to purchase new shares: 4 types Resolution by the General Meeting of Shareholders on March 25, 2004: Number of latent shares: 218,000 shares Number of rights to purchase new shares: 2,180 rights Resolution by the General Meeting of Shareholders on March 23, 2005: Number of latent shares: 252,000 shares Number of rights to purchase new shares: 2,520 rights Resolution by the General Meeting of Shareholders on March 23, 2006: Number of latent shares: 344,000 shares Number of rights to purchase new shares: 3,440 rights Resolution by the Board of Directors on March 23, 2007: Number of latent shares: 355,000 shares Number of rights to purchase new shares: 3,550 rights

Non-Consolidated Balance Sheet

(Millions of Yen)

Accounts	As of December 31, 2007			As of December 31, 2008		
Assets			%			%
I Current assets:						
Cash and deposits		47,501			49,448	
Accounts receivable		104,613			107,457	
Marketable securities		64,992			54,715	
Merchandise		4,552			4,571	
Products		25,181			33,758	
Semi-finished goods		0			167	
Raw materials		3,476			2,449	
Prepaid expenses		360			287	
Deferred tax assets		17,546			19,245	
Short-term loans		—			4,100	
Accrued receivables		20,601			34,700	
Other		92			1,467	
Reserve for doubtful accounts		(50)			(58)	
Total current assets		288,868	67.1		312,309	69.2
II Fixed assets:						
1. Tangible fixed assets:						
Buildings	54,937			60,718		
Accumulated depreciation	31,852	23,085		33,922	26,795	
Structure	5,282			5,455		
Accumulated depreciation	3,799	1,482		3,941	1,513	
Machinery and equipment	19,437			19,886		
Accumulated depreciation	15,177	4,259		14,728	5,157	
Vehicles and transport equipment	100			72		
Accumulated depreciation	65	35		53	19	
Furniture and fixtures	28,019			29,478		
Accumulated depreciation	22,808	5,211		24,257	5,220	
Land		9,094			9,105	
Construction in progress		6,793			673	
Total tangible fixed assets		49,962	11.6		48,485	10.7
2. Intangible fixed assets:						
Patent rights		22			17	
Trademark rights		2			2	
Software		2,651			2,468	
Other		682			601	
Total intangible fixed assets		3,358	0.8		3,090	0.7

(Millions of Yen)

Accounts	As of December 31, 2007			As of December 31, 2008		
3. Investments and other assets:			%			%
Investment securities		16,589			14,147	
Investments in subsidiaries and affiliates		55,706			55,706	
Investment in capital to affiliates		43			43	
Long-term loans		30			30	
Long-term loans to employees		—			1	
Long-term prepaid expenses		650			544	
Deferred tax assets		8,839			11,264	
Guarantee deposits		4,276			4,153	
Long-term receivables		1,275			855	
Other		1,115			815	
Reserve for doubtful accounts		(242)			(225)	
Total investments and other assets		88,284	20.5		87,336	19.4
Total fixed assets		141,605	32.9		138,912	30.8
Total assets		430,473	100.0		451,222	100.0

(Millions of Yen)

Accounts	As of December 31, 2007			As of December 31, 2008		
Liabilities			%			%
I Current liabilities:						
Accounts payable		17,500			30,446	
Bonds maturing within one year		300			—	
Convertible bonds maturing within one year		42			—	
Accrued payables		345			578	
Accrued expenses		17,242			21,660	
Accrued income taxes		15,430			7,746	
Accrued consumption taxes		234			222	
Advances received		0			—	
Deposits received		1,148			1,327	
Reserve for bonuses to employees		3,931			3,731	
Reserve for bonuses to directors		185			193	
Reserve for sales returns/rebates and other items		4,090			3,854	
Accrued capital investments		3,011			3,235	
Other		423			398	
Total current liabilities		63,887	14.8		73,394	16.3
II Fixed liabilities:						
Reserve for employees' retirement benefits		2,305			1,593	
Reserve for directors' retirement benefits		620			755	
Other		42			41	
Total fixed liabilities		2,968	0.7		2,389	0.5
Total liabilities		66,855	15.5		75,784	16.8

(Millions of Yen)

Accounts	As of December 31, 2007			As of December 31, 2008		
Net assets			%			%
I Shareholders' equity:						
1. Common stock		72,947	16.9		72,966	16.2
2. Additional paid-in capital						
Capital surplus	92,796			92,815		
Total additional paid-in capital		92,796	21.6		92,815	20.5
3. Retained earnings						
1. Legal reserve	6,480			6,480		
2. Other						
Reserve for advanced depreciation of fixed assets	933			862		
General reserve	149,220			149,220		
Retained earnings carried forward	73,451			86,580		
Total retained earnings		230,084	53.5		243,142	53.9
4. Treasury stock, at cost		(35,108)	(8.2)		(35,168)	(7.8)
Total shareholders' equity		360,720	83.8		373,756	82.8
II Valuation and translation adjustments:						
Net unrealized gain on securities		2,757	0.7		1,354	0.3
Total valuation and translation adjustments		2,757	0.7		1,354	0.3
III New share warrants		139	0.0		326	0.1
Total net assets		363,618	84.5		375,437	83.2
Total liabilities and net assets		430,473	100.0		451,222	100.0

Non-Consolidated Statement of Income

(Millions of Yen)

Accounts	FY 2007.12 (Jan. 1, 2007 - Dec. 31, 2007)			FY 2008.12 (Jan. 1, 2008 - Dec. 31, 2008)		
			%			%
I Revenues						
Product sales	264,569			260,310		
Merchandise sales	51,321			44,784		
Royalties and other operating income	13,311	329,203	100.0	6,415	311,510	100.0
II Cost of sales:						
1 Inventory of merchandise and products at beginning of period	34,336			29,733		
2 Merchandise procured during the period	34,434			30,413		
3 Cost of production during the period	99,959			109,575		
4 Transfer from other accounts	2,699			3,718		
Total	171,429			173,441		
5 Transfer to other accounts	2,298			2,021		
6 Inventory of merchandise and products at end of period	29,733			38,329		
Total	32,032	139,397	42.3	40,350	133,090	42.7
Gross profit		189,805	57.7		178,420	57.3
III Selling, general and administrative expenses:						
Advertising expense	36			37		
Sales promotion expenses	12,289			14,136		
Reserve for doubtful accounts	—			8		
Salaries and benefits	24,912			27,333		
Welfare expenses	8,004			7,017		
Reserve for bonuses to employees	2,659			2,583		
Reserve for bonuses to directors	185			193		
Reserve for employees' retirement benefits	1,105			1,578		
Reserve for officers' retirement benefits	83			160		
Travel and transportation expenses	4,554			4,960		
Depreciation	2,174			2,214		
R&D expenses	53,323			53,088		
Other	24,006	133,336	40.5	28,022	141,334	45.4
Operating income		56,469	17.2		37,085	11.9

(Millions of Yen)

Accounts	FY 2007.12 (Jan. 1, 2007 - Dec. 31, 2007)			FY 2008.12 (Jan. 1, 2008 - Dec. 31, 2008)		
IV Non-operating income:			%			%
Interest income	36			85		
Interest on securities	475			643		
Dividend income	98			670		
Real estate rental income	1,296			1,417		
Gain on derivatives	368			—		
Life insurance dividends received	314			332		
Reversal of reserve for doubtful accounts	54			—		
Gain on foreign exchange	—			2,933		
Other	1,398	4,042	1.2	772	6,855	2.2
V Non-operating expenses:						
Interest expense	82			11		
Interest on bonds	4			3		
Loss on inventories	2,069			1,925		
Loss on foreign exchange	264			—		
Loss on disposal of fixed assets	212			222		
Loss on derivatives	—			1,341		
Other	522	3,156	1.0	361	3,865	1.2
Recurring profit		57,355	17.4		40,075	12.9
VI Extraordinary gain:						
Gain on sales of fixed assets	—			420		
Gains on the liquidation of affiliates	293			—		
Gains on settlement of co-development costs	—	293	0.1	6,340	6,761	2.2
VII Extraordinary loss:						
Loss on sales of fixed assets	—			9		
Impairment loss	32			729		
Loss of revaluation of stocks of affiliates	1,938			—		
Loss on office realignment costs	589			265		
Loss on revaluation of investment securities	—	2,560	0.8	19	1,023	0.3
Income before income taxes and minority interests		55,088	16.7		45,813	14.7
Income taxes:						
Current	26,725			19,575		
Deferred	(5,425)	21,300	6.5	(3,174)	16,401	5.3
Net income		33,788	10.3		29,412	9.4

Non-Consolidated Statement of Changes in Net Assets

FY 2007.12 (Jan. 1, 2007 – Dec. 31, 2007) (Millions of Yen)

	Shareholders' equity								
		Additional paid-in capital		Retained earnings					
					Other retained earnings				
	Common stock	Capital surplus	Other capital surplus	Legal reserve	Reserve for advanced deprecia-tion of fixed assets	General reserve	Retained earnings carried forward	Treasury stock, at cost	Total shareholders' equity
Balance as of Dec. 31, 2006	72,893	92,741	5	6,480	1,002	149,220	57,765	(7,590)	372,517
Changes:									
New stocks issuance	54	54							108
Reversal of reserve for advanced depreciation of fixed assets					(68)		68		—
Dividends paid							(18,146)		(18,146)
Net income							33,788		33,788
Purchase of treasury stocks								(27,614)	(27,614)
Deposition of treasury stocks			(5)				(25)	97	66
Net changes except for shareholders' equity									
Net changes	54	54	(5)	—	(68)	—	15,685	(27,517)	(11,796)
Balance as of Dec. 31, 2007	72,947	92,796	—	6,480	933	149,220	73,451	(35,108)	360,720

(Millions of Yen)

	Valuation and translation adjustments	New share warrants	Total net assets
	Net unrealized gain on securities		
Balance as of Dec. 31, 2006	3,236	—	375,753
Changes:			
New stocks issuance			108
Reversal of reserve for advanced depreciation of fixed assets			—
Dividends paid			(18,146)
Net income			33,788
Purchase of treasury stocks			(27,614)
Deposition of treasury stocks			66
Net changes except for shareholders' equity	(478)	139	(338)
Net changes	(478)	139	(12,135)
Balance as of Dec. 31, 2007	2,757	139	363,618

FY 2008.12 (Jan. 1, 2008 – Dec. 31, 2008) (Millions of Yen)

	Shareholders' equity							
	Common stock	Additional paid-in capital	Retained earnings				Treasury stock, at cost	Total shareholders' equity
				Other retained earnings				
		Capital surplus	Legal reserve	Reserve for advanced deprecia-tion of fixed assets	General reserve	Retained earnings carried forward		
Balance as of Dec. 31, 2007	72,947	92,796	6,480	933	149,220	73,451	(35,108)	360,720
Changes:								
New stocks issuance	19	18						37
Reversal of reserve for advanced depreciation of fixed assets				(70)		70		—
Dividends paid						(16,344)		(16,344)
Net income						29,412		29,412
Purchase of treasury stocks							(86)	(86)
Deposition of treasury stocks						(9)	26	17
Net changes except for shareholders' equity								
Net changes	19	18	—	(70)	—	13,128	(59)	13,035
Balance as of Dec. 31, 2008	72,966	92,815	6,480	862	149,220	86,580	(35,168)	373,756

(Millions of Yen)

	Valuation and translation adjustments	New share warrants	Total net assets
	Net unrealized gain on securities		
Balance as of Dec. 31, 2007	2,757	139	363,618
Changes:			
New stocks issuance			37
Reversal of reserve for advanced depreciation of fixed assets			—
Dividends paid			(16,344)
Net income			29,412
Purchase of treasury stocks			(86)
Deposition of treasury stocks			17
Net changes except for shareholders' equity	(1,403)	186	(1,216)
Net changes	(1,403)	186	(11,819)
Balance as of Dec. 31, 2008	1,354	326	375,437

Events or circumstances that cast major doubt on the assumption of continued operations

None applicable