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**CHUGAI PHARMACEUTICAL CO., LTD.**

A member of the Roche group

## CONSOLIDATED FINANCIAL STATEMENTS (IFRS) (Non-audited)

### (for the first quarter of fiscal year 2013)

Name of Company: Chugai Pharmaceutical Co., Ltd. April 25, 2013

Stock Listing: Tokyo Stock Exchange

Security Code No.: 4519 (URL <http://www.chugai-pharm.co.jp/english>)

Representative: Osamu Nagayama, Representative Director, Chairman & CEO

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Date of Submission of Quarterly Marketable Securities Filings: May 15, 2013

Date on which Dividend Payments to Commence: —

Supplementary Materials Prepared for the Quarterly Financial Statements: Yes

Presentation Held to Explain the Quarterly Financial Statements: Yes (for institutional investors and analysts)

(Note: Amounts of less than one million yen are rounded.)

### **I. Consolidated results for the first quarter of FY 2013 (January 1, 2013–March 31, 2013)**

#### **(1) Consolidated results (Income: cumulative)**

	Revenues	% change	Operating profit	% change	Profit before taxes	% change
First three months of FY 2013	¥90,416 million	0.1	¥14,663 million	(17.9)	¥13,660 million	(21.8)
First three months of FY 2012	¥90,287 million	—	¥17,857 million	—	¥17,472 million	—

	Net income	% change	Attributable to Chugai shareholders	% change	Total comprehensive income	% change
First three months of FY 2013	¥9,190 million	(15.8)	¥8,897 million	(16.9)	¥11,965 million	(13.8)
First three months of FY 2012	¥10,910 million	—	¥10,709 million	—	¥13,884 million	—

	Net income per share (Basic)	Net income per share (Diluted)
First three months of FY 2013	¥16.35	¥16.33
First three months of FY 2012	¥19.68	¥19.67

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

#### **(2) Consolidated results (Balance sheet)**

	Total assets	Total net assets	Equity attributable to Chugai shareholders	Equity ratio attributable to Chugai shareholders
As of Mar. 31, 2013	¥632,221 million	¥530,136 million	¥529,061 million	83.7%
As of Dec. 31, 2012	¥645,325 million	¥529,161 million	¥527,961 million	81.8%

## 2. Dividends

	Annual dividends per share				
	End of first quarter	End of second quarter	End of third quarter	End of fiscal year	Total
FY ended Dec. 2012	—	¥20.00	—	¥20.00	¥40.00
FY ended Dec. 2013	—				
FY ending Dec. 2013 (Forecast)		¥22.00	—	¥23.00	¥45.00

Note: Whether the most recent dividend forecast has been revised: No

## 3. Consolidated forecasts for FY 2013 (January 1, 2013–December 31, 2013)

	Revenues	Achievement % change	Core operating profit	Achievement % change	Core EPS	Core payout ratio (%)
First three months of FY 2013 (Results)	¥90,416 million	21.7%	¥15,067 million	19.4%	¥16.83	—
FY ending Dec. 2013 (Forecast)	¥416,000 million	7.6%	¥77,500 million	2.5%	¥92.57	48.6%

Notes: 1. Percentages shown for forecasts of revenues and core operating profit represent changes from the same period of the previous fiscal year.

Percentages for results represent the percentage of forecast levels that have been achieved to date.

2. Whether the most recent forecasts for consolidated figures have been revised: No

3. The figures for the consolidated forecasts presented above are calculated as forecasts and actual figures based on Core basis indicators established by the Company and used on a consistent basis.

Notes:

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

(2) Changes in accounting principles and changes in accounting estimates

(a) Changes in accounting principles required by IFRS: None

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

(c) Changes in accounting estimates: None

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

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

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

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

First quarter of FY 2013	559,685,889	FY 2012	559,685,889
First quarter of FY 2013	15,234,152	FY 2012	15,440,438
First quarter of FY 2013	544,288,787	First quarter of FY 2012	544,191,612

**Items related to the status of the implementation of quarterly reviews**

*At the time of disclosure of these quarterly consolidated financial statements, review procedures were in progress for the quarterly financial statements based on the Financial Instruments and Exchange Act.*

**Explanation of the appropriate use of performance forecasts and other related items**

- (1) The Company has applied International Financial Reporting Standards (IFRS) from the first quarter of the fiscal year ending December 31, 2013. In addition, the consolidated financial statements for the same quarters of the previous year and for the previous fiscal year have been prepared in accordance with IFRS.*
- (2) 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.*
- (3) The forecast which is published for shareholders and investors is based on the internal management indicator Core basis. The difference between IFRS results and Core results will be explained at each quarterly event and presentation.*
- (4) For the specifics of the forecasts, please refer to the items “1. Qualitative Information, (3) “Forecast for Consolidated Performance” on page 6.*
- (5) Please refer to “Notice concerning adoption of International Financial Reporting Standards (IFRS)”  
<http://www.chugai-pharm.co.jp/html/press/pdf/2012/121214eSupplementaryMaterials.pdf> on pages 11-13 for details of Core basis.*
- (6) The Company is scheduled to hold a conference call for investors as noted below. The materials used for the call, the verbal recording, the Q&A, and other related documents will be posted on the Company’s website following the conclusion of the conference call.  
Teleconference for institutional investors and analysts (Japanese only): April 25, 2013, Thursday (Japan time)*

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**1. Qualitative Information****(1) Qualitative Information regarding Operating Results (Consolidated)**

(Billions of Yen)

	First three months of FY 2013.12 (Jan. 1, 2013–Mar. 31, 2013)	First three months of FY 2012.12 (Jan. 1, 2012–Mar. 31, 2012)	% change
<b>Core results</b>			
<b>Revenues</b>	<b>90.4</b>	<b>90.3</b>	<b>+0.1</b>
Sales (excluding Tamiflu)	78.7	79.0	(0.4)
Tamiflu sales	8.3	7.8	+6.4
Royalties and other operating income	3.4	3.5	(2.9)
Cost of sales	(40.6)	(39.4)	+3.0
<b>Gross profit</b>	<b>49.9</b>	<b>50.9</b>	<b>(2.0)</b>
Marketing and distribution	(16.1)	(15.4)	+4.5
Research and development	(16.4)	(15.8)	+3.8
General and administration	(2.3)	(1.7)	+35.3
<b>Operating profit</b>	<b>15.1</b>	<b>18.1</b>	<b>(16.6)</b>
<b>Net income</b>	<b>9.5</b>	<b>11.1</b>	<b>(14.4)</b>
<b>IFRS results</b>			
<b>Revenues</b>	<b>90.4</b>	<b>90.3</b>	<b>+0.1</b>
<b>Operating profit</b>	<b>14.7</b>	<b>17.9</b>	<b>(17.9)</b>
<b>Net income</b>	<b>9.2</b>	<b>10.9</b>	<b>(15.6)</b>

**Consolidated financial highlights (IFRS results)**

Operating profit for this quarter was ¥14.7 billion (a decrease of 17.9% year on year) and net income for this quarter was ¥9.2 billion (a decrease of 15.6% year on year). These results include non-Core items such as intangible assets amortization of ¥0.2 billion, restructuring expenses of ¥0.2 billion, and other smaller items, which are excluded from the Core results. As a consequence of the increase of restructuring expenses in the first quarter of 2013, the decrease in IFRS operating profit and net income for this quarter was greater than the decrease in Core results from the same period of the previous fiscal year.

**Consolidated financial highlights (Core results)**

Revenues for the first quarter were ¥90.4 billion (an increase of 0.1% year on year), offsetting the loss of sales of Evista (an agent for the treatment of osteoporosis), due to the completion of the sales agreement under which this product is no longer sold by Chugai. Sales, excluding Tamiflu for the quarter were ¥78.7 billion (a decrease of 0.4% year on year).

Gross profit was ¥49.9 billion (a decrease of 2.0% year on year). This decrease was mainly due to the depreciation of the yen, and changes in the product mix, which caused an increase in the cost of sales ratio and brought the cost of sales to ¥40.6 billion (an increase of 3.0% year on year).

Marketing and distribution expenses were ¥16.1 billion (an increase of 4.5%). This increase was mainly due to a rise in bonuses which are linked to performance of the previous fiscal year. Research and development expenditures were ¥16.4 billion (an increase of 3.8% year on year) as a result of the full operation of CPR (Chugai Pharmabody Research Pte. Ltd.). General and administration expenses were ¥2.3 billion (an increase of 35.3% year on year) owing to slightly higher expenses in the administrative divisions and additional costs in other general items.

As a consequence, Core operating profit was ¥15.1 billion (a decrease of 16.6% year on year) and Core net income for the quarter was ¥9.5 billion (a decline of 14.4% year on year). The current Core operating profit achievement percentage of the consolidated

forecasts for FY 2013 is 19.4%, which is in line with the internal forecasting expectations.

#### Note: Core results

Chugai Pharmaceutical Co., Ltd. (“Chugai” or “the Company”) discloses its results on a Core basis, in addition to the IFRS results, from 2013 in conjunction with its decision to apply International Financial Reporting Standards (IFRS). Core results are the results after adjusting non-Core items of the Company to IFRS results, as well as realignment with the Core concept disclosed by Roche Group (“Roche”). Core results are used by the Company as an internal performance indicator, to help explain the underlying business performance both internally and externally, and as the basis for performance evaluation and the payout ratio.

For further details regarding the adjustment to IFRS results, please refer to the appendix section on page 5, entitled “Reconciliation of IFRS results to Core results.”

#### Sales by product domain

(Billions of Yen)			
	First three months of FY 2013.12 (Jan. 1, 2013–Mar. 31, 2013)	First three months of FY 2012.12 (Jan. 1, 2012–Mar. 31, 2012)	% change
<b>Sales</b>	<b>87.0</b>	<b>86.8</b>	<b>+0.2</b>
<b>Domestic sales (excluding Tamiflu)</b>	<b>68.8</b>	<b>68.1</b>	<b>+1.0</b>
Oncology	35.5	32.7	+8.6
Bone and joint disease	12.2	13.6	(10.3)
Renal diseases field	10.2	10.3	(1.0)
Transplant, immunology, and infectious disease	4.2	4.5	(6.7)
Others	6.8	6.9	(1.4)
<b>Tamiflu sales</b>	<b>8.3</b>	<b>7.8</b>	<b>+6.4</b>
Ordinary use	7.5	7.5	0.0
Government stockpiles	0.8	0.4	+100.0
<b>Overseas sales</b>	<b>9.9</b>	<b>10.9</b>	<b>(9.2)</b>

#### Domestic sales (excluding Tamiflu)

Domestic sales for the first quarter of 2013, excluding Tamiflu, were ¥68.8 billion (an increase of 1.0% year on year). Overall sales increased because of steady growth in the oncology field, including Avastin (an anti-vascular endothelial growth factor (VEGF) humanized monoclonal antibody, anti-cancer agent) and contributions from new products, including Ediol (an active vitamin D3 derivative) as well as Mircera (a long-acting erythropoietin-stimulating agent), both of which were introduced in 2011. This more than offsets the decrease of sales of Evista, of which sales ended following the termination of the sales agreement. Sales of Epogin (a recombinant human erythropoietin) declined and the National Health Insurance (NHI) drug price revision also had an adverse impact. Excluding the impact of loss of Evista sales due to termination of the sales agreement, overall domestic sales were up 6.3% year on year, showing good progress.

Oncology sales for the first quarter continued to rise to ¥35.5 billion (an increase of 8.6% year on year). This was due to steady expansion in sales of Avastin, Herceptin (an anti-HER-2-humanized monoclonal antibody, anti-cancer agent), and other major oncology drugs.

Bone and joint disease sales decreased to ¥12.2 billion (a decline of 10.3% year on year) due to the completion of the sales agreement for Evista. On the positive side, Ediol, which was introduced in April 2011, increased its market penetration after its long-term prescription restrictions removal in April 2012.

Renal diseases sales totaled ¥10.2 billion (a decrease of 1.0% year on year) due to a significant decline in Epogin sales, caused by the switching of Epogin to Mircera and intensified competition including the impact from follow-on biologics (biosimilars). Market

penetration of Mircera has been slow as the recognition of the product profile of Mircera may require some more time to be established.

In the area of transplant, immunology, and infectious disease (excluding Tamiflu), sales were ¥4.2 billion (a decrease of 6.7% year on year). This decline was due to decreased sales of Pegasys (a peginterferon- $\alpha$ -2a) and Copegus (an anti-viral agent), owing to the shrinkage in the market for interferon agents and the launch of competing products.

#### **Tamiflu (an anti-influenza agent)**

Sales of Tamiflu for ordinary use amounted to ¥7.5 billion (a 0.0% increase year on year). Sales to government stockpiles amounted to ¥0.8 billion (an increase of 100.0% year on year).

#### **Overseas sales**

Overseas sales were ¥9.9 billion for the quarter under review (a 9.2% decrease year on year). Although exports of Actemra to Roche were at expected levels, due to the divergence in the timing of exports compared to previous year, its sales were down ¥1.7 billion year on year.

## **(2) Qualitative Information regarding Financial Condition (Consolidated)**

### **Assets, Liabilities, and Net Assets**

(Billions of Yen)

	March 31, 2013	December 31, 2012	% change
Movements of assets and liabilities			
Net working capital	156.8	157.9	(0.7)
Long-term net operating assets	145.2	150.0	(3.2)
<b>Net operating assets (NOA)</b>	<b>301.9</b>	<b>307.9</b>	<b>(1.9)</b>
Net cash	211.6	211.7	(0.0)
Other non-operating assets - net	16.6	9.6	+72.9
<b>Total net assets</b>	<b>530.1</b>	<b>529.2</b>	<b>+0.2</b>
Consolidated balance sheet (IFRS basis)			
Total assets	632.2	645.3	(2.0)
Total liabilities	(102.1)	(116.2)	(12.1)
Total net assets	530.1	529.2	+0.2

Net working capital at March 31, 2013 was ¥156.8 billion (a decrease of ¥1.1 billion since December 31, 2012). This was mainly due to a decrease of ¥18.2 billion in trade accounts receivable, an increase in inventories of ¥7.8 billion, and a decrease in accounts payable of ¥6.8 billion. Long-term net operating assets were ¥145.2 billion (a decrease of ¥4.8 billion since December 31, 2012) mainly due to an increase in deferred income and other factors. As a result, net operating assets were ¥301.9 billion, ¥6.0 billion lower than at December 31, 2012.

As the following section “Cash Flows” of this report indicates, net cash, which includes marketable securities and debt, at the end of the quarter was ¥211.6 billion (a decrease of ¥0.1 billion since December 31, 2012). Other non-operating assets, net amounted to ¥16.6 billion (an increase of ¥7.0 billion since December 31, 2012), mainly due to a decrease in payment of income taxes and other factors.

As a consequence, total net assets were ¥530.1 billion (an increase of ¥0.9 billion since December 31, 2012).

#### **Note: Movements of assets and liabilities**

The consolidated balance sheet has been prepared in accordance with the International Accounting Standards (IAS) No.1,

“Presentation of Financial Statements”. On the other hand, “Movement of assets and liabilities” including net operating assets (NOA) are an independent reconfiguration of the consolidated balance sheet and are consistent with the NOA concepts disclosed by Roche. Furthermore, no items from the assets and liabilities of IFRS have been excluded, as the Core results concept only applies to the income statement.

For further details, please refer to the appendix section on page 8, “Movements of assets and liabilities.”

## Cash Flows

(Billions of Yen)

	First three months of FY 2013.12 (Jan. 1, 2013–Mar. 31, 2013)	First three months of FY 2012.12 (Jan. 1, 2012–Mar. 31, 2012)	% change
Movements of free cash flows			
Operating profit - IFRS basis	14.7	17.9	(17.9)
Operating cash flows after adjustments	18.9	19.4	(2.6)
Operating free cash flows	21.0	45.0	(53.3)
Free cash flows	(1.9)	19.1	(109.9)
Net change in net cash	(0.1)	20.9	(100.5)
Consolidated statement of cash flows (IFRS basis)			
Cash flows from operating activities	14.0	34.0	(58.8)
Cash flows from investing activities	1.4	(8.7)	+116.1
Cash flows from financing activities	(10.9)	(11.1)	+1.8
Net change in cash and cash equivalents	5.1	14.9	(65.8)
Cash and cash equivalents at March 31	100.6	109.4	(8.0)

Operating cash flows after adjustments, which are calculated by adjusting for depreciation and other items that are included in operating profit but are not accompanied by cash outflows and all inflows and outflows related to NOA that are not accompanied by cash outflows or inflows, amounted to a net cash inflow of ¥18.9 billion. The principal items influencing this result were a total of ¥3.5 billion in tangible fixed assets depreciation and impairment.

Operating free cash flows, which are calculated by adding a decrease in net working capital of ¥6.9 billion and subtracting expenditures of ¥4.8 billion for the purchase of property, plant and equipment and intangible assets from operating cash flows after adjustments, amounted to a net inflow of ¥21.0 billion.

Free cash flows, which are calculated by subtracting a total of ¥22.9 billion comprising cash flows from financial asset management, income taxes paid, and dividends paid from operating free cash flows, amounted to a net cash outflow of ¥1.9 billion.

As a result, the net change in net cash, after foreign currency translation adjustments, decreased ¥0.1 billion in comparison with the same period of the previous fiscal year. The net change in cash and cash equivalents, excluding changes in securities and interest-bearing debt, was a net cash inflow of ¥5.1 billion. As a result, the cash and cash equivalents balance at the end of this quarter amounted to ¥100.6 billion.

### Note: Movements of free cash flows

The consolidated statement of cash flows has been prepared in accordance with the International Accounting Standard (IAS) No.7, “Statement of Cash Flows”. On the other hand, the Company prepares operating Free Cash Flow (FCF) for use as an internal management metric. This metric provides a defined mechanism that is a cohesive and consistent basis across operating profit, operating FCF, and NOA. In addition, this metric is also aligned to the FCF disclosed by Roche. FCF represents the IFRS consolidated statement of cash flows that has been reconfigured on different presentation basis with no eliminations such as the Core results.



For further details, please refer to the appendix section on page 9, “Movements of free cash flows”.

**(3) Qualitative Information regarding the Forecast for Consolidated Performance**

The Company has not made any changes in its forecast of consolidated results for the fiscal year ending December 2013 since the announcement regarding the forecast issued on January 30, 2013.

Note: In the items (1), (2) and (3), amounts less than ¥0.1 billion have been rounded to the nearest ¥0.1 billion. Figures for changes in amounts and percentages have been calculated using data denominated in ¥0.1 billion units.

**2. Other Information**

**(1) Changes in the State of Material Subsidiaries during the Period**

None

**(2) Changes in Accounting Principles and Changes in Accounting Estimates**

None

**3. Interim Condensed Consolidated Financial Statements****(1) Interim Condensed Consolidated Statement of Income and Consolidated Statement of Comprehensive Income****1) Interim Condensed Consolidated Statement of Income**

	First three months of FY 2013 (Jan. 1, 2013 – Mar. 31, 2013)	(Millions of Yen) First three months of FY 2012 (Jan. 1, 2012 – Mar. 31, 2012)
<b>Revenues</b>	<b>90,416</b>	<b>90,287</b>
Sales	87,025	86,776
Royalties and other operating income	3,391	3,511
Cost of sales	(40,783)	(39,580)
<b>Gross profit</b>	<b>49,633</b>	<b>50,706</b>
Marketing and distribution	(16,133)	(15,385)
Research and development	(16,488)	(15,774)
General and administration	(2,348)	(1,691)
<b>Operating profit</b>	<b>14,663</b>	<b>17,857</b>
Financing costs	(16)	(23)
Other financial income (expense)	(988)	(362)
<b>Profit before taxes</b>	<b>13,660</b>	<b>17,472</b>
Income taxes	(4,470)	(6,561)
<b>Net income</b>	<b>9,190</b>	<b>10,910</b>
Attributable to:		
Chugai shareholders	8,897	10,709
Non-controlling interests	293	201
Earnings per share		
Basic (Yen)	16.35	19.68
Diluted (Yen)	16.33	19.67

**2) Interim Condensed Consolidated Statement of Comprehensive Income**

(Millions of Yen)

	First three months of FY 2013 (Jan. 1, 2013 – Mar. 31, 2013)	First three months of FY 2012 (Jan. 1, 2012 – Mar. 31, 2012)
<b>Net income</b>	<b>9,190</b>	<b>10,910</b>
Other comprehensive income		
Items that will not be reclassified to profit or loss	—	—
<b>Total items that will not be reclassified to profit or loss</b>	<b>—</b>	<b>—</b>
Items that may be reclassified subsequently to profit or loss		
(a) Currency translation of foreign operations	1,730	2,199
(b) The portion of gains or losses on effective cash flow hedges recognized in other comprehensive income	371	—
(c) The portion of gains or losses on effective cash flow hedges reclassified from other comprehensive income to profit or loss	(400)	—
(d) Net change in fair value of available-for-sale financial assets	1,563	1,116
(e) Net change in fair value of available-for-sale financial assets reclassified to profit or loss	1	—
(f) Income tax relating to items (a) to (e) that may be reclassified	(490)	(342)
<b>Total items that may be reclassified subsequently to profit or loss</b>	<b>2,775</b>	<b>2,974</b>
<b>Other comprehensive income, net of tax</b>	<b>2,775</b>	<b>2,974</b>
<b>Total comprehensive income</b>	<b>11,965</b>	<b>13,884</b>
Attributable to:		
Chugai shareholders	11,584	13,566
Non-controlling interests	382	318

**(2) Interim Condensed Consolidated Balance Sheet**

(Millions of Yen)

	March 31, 2013	December 31, 2012	January 1, 2012 (Date of transition to IFRS)
Assets			
Non-current assets:			
Property, plant and equipment	141,283	143,056	143,356
Intangible assets	6,647	6,500	6,548
Financial long-term assets	7,900	6,332	4,946
Other long-term assets	10,798	10,921	11,316
Deferred income tax assets	23,045	20,735	24,042
Post-employment benefit assets	2,874	2,680	993
<b>Total non-current assets</b>	<b>192,548</b>	<b>190,224</b>	<b>191,202</b>
Current assets:			
Inventories	116,154	108,413	102,834
Accounts receivable	105,456	128,306	119,506
Current income tax assets	193	344	27
Other current assets	6,009	6,108	4,035
Marketable securities	111,309	116,484	75,177
Cash and cash equivalents	100,553	95,445	94,474
<b>Total current assets</b>	<b>439,673</b>	<b>455,100</b>	<b>396,054</b>
<b>Total assets</b>	<b>632,221</b>	<b>645,325</b>	<b>587,255</b>

(Millions of Yen)

	March 31, 2013	December 31, 2012	January 1, 2012 (Date of transition to IFRS)
Liabilities			
Non-current liabilities:			
Long-term debt	(212)	(213)	(170)
Deferred income tax liabilities	(10,202)	(9,963)	(9,342)
Post-employment benefit liabilities	(780)	(747)	(655)
Long-term provisions	(1,893)	(1,893)	(1,907)
Other non-current liabilities	(11,678)	(8,630)	(4,531)
<b>Total non-current liabilities</b>	<b>(24,765)</b>	<b>(21,446)</b>	<b>(16,606)</b>
Current liabilities:			
Short-term debt	(44)	(44)	(22)
Current income tax liabilities	(6,616)	(11,437)	(13,731)
Short-term provisions	(200)	(5)	(273)
Accounts payable	(45,844)	(60,096)	(35,895)
Accrued and other current liabilities	(24,617)	(23,135)	(21,740)
<b>Total current liabilities</b>	<b>(77,321)</b>	<b>(94,718)</b>	<b>(71,661)</b>
<b>Total liabilities</b>	<b>(102,086)</b>	<b>(116,164)</b>	<b>(88,266)</b>
<b>Total net assets</b>	<b>530,136</b>	<b>529,161</b>	<b>498,989</b>
Equity attributable to:			
Capital and reserves attributable to Chugai shareholders	529,061	527,961	497,782
Equity attributable to non-controlling interests	1,075	1,200	1,207
<b>Total equity</b>	<b>530,136</b>	<b>529,161</b>	<b>498,989</b>

**(3) Interim Condensed Consolidated Statement of Cash Flows**

	(Millions of Yen)	
	First three months of FY 2013 (Jan. 1, 2013 – Mar. 31, 2013)	First three months of FY 2012 (Jan. 1, 2012 – Mar. 31, 2012)
Cash flows from operating activities		
Cash generated from operations	19,620	20,125
(Increase) decrease in working capital	6,920	27,336
Payments made for defined benefit post-employment plans	(910)	(655)
Utilization of provisions	(1)	(1)
Other operating cash flows	89	705
<b>Cash flows from operating activities, before income taxes paid</b>	<b>25,718</b>	<b>47,510</b>
Income taxes paid	(11,673)	(13,549)
<b>Total cash flows from operating activities</b>	<b>14,045</b>	<b>33,961</b>
Cash flows from investing activities		
Purchase of property, plant and equipment	(4,637)	(3,811)
Purchase of intangible assets	(168)	—
Disposal of property, plant and equipment	1	—
Interest and dividends received	88	107
Purchases of marketable securities	(56,561)	(30,383)
Sales of marketable securities	62,647	25,506
Other investing cash flows	(1)	(75)
<b>Total cash flows from investing activities</b>	<b>1,369</b>	<b>(8,656)</b>
Cash flows from financing activities		
Interest paid	(3)	(2)
Dividends paid	(10,672)	(10,631)
Dividends paid—non-controlling interests	(507)	(429)
Exercise of equity compensation plan	341	—
(Increase) decrease in own equity instruments	(2)	(1)
Other financing cash flows	(40)	(43)
<b>Total cash flows from financing activities</b>	<b>(10,883)</b>	<b>(11,105)</b>
Net effect of currency translation on cash and cash equivalents	578	736
<b>Increase in cash and cash equivalents</b>	<b>5,108</b>	<b>14,935</b>
Cash and cash equivalents at January 1	95,445	94,474
<b>Cash and cash equivalents at March 31</b>	<b>100,553</b>	<b>109,409</b>

**(4) Interim Condensed Consolidated Statement of Changes in Equity**  
**For the first quarter ended March 31, 2013 (Jan. 1, 2013 – March 31, 2013)**

(Millions of Yen)

	Attributable to Chugai shareholders					Non-controlling interests	Total equity
	Share capital	Capital surplus	Retained earnings	Reserves	Subtotal		
<b>At January 1, 2013</b>	<b>72,967</b>	<b>64,668</b>	<b>397,221</b>	<b>(6,895)</b>	<b>527,961</b>	<b>1,200</b>	<b>529,161</b>
Net income recognized in income statement	—	—	8,897	—	8,897	293	9,190
Available-for-sale financial assets	—	—	—	1,063	1,063	—	1,063
Cash flow hedges	—	—	—	(18)	(18)	—	(18)
Currency translation of foreign operations	—	—	—	1,641	1,641	89	1,730
<b>Total comprehensive income</b>	<b>—</b>	<b>—</b>	<b>8,897</b>	<b>2,686</b>	<b>11,584</b>	<b>382</b>	<b>11,965</b>
Dividends	—	—	(10,885)	—	(10,885)	(507)	(11,392)
Equity compensation plans, net of transaction in own equity instruments	—	13	—	—	13	—	13
Own equity instruments	—	387	—	—	387	—	387
Other movements	—	—	—	—	—	—	—
<b>At March 31, 2013</b>	<b>72,967</b>	<b>65,069</b>	<b>395,234</b>	<b>(4,209)</b>	<b>529,061</b>	<b>1,075</b>	<b>530,136</b>

**For the first quarter ended March 31, 2012 (Jan. 1, 2012 – March 31, 2012)**

(Millions of Yen)

	Attributable to Chugai shareholders					Non-controlling interests	Total equity
	Share capital	Capital surplus	Retained earnings	Reserves	Subtotal		
<b>At January 1, 2012</b>	<b>72,967</b>	<b>64,385</b>	<b>371,560</b>	<b>(11,129)</b>	<b>497,782</b>	<b>1,207</b>	<b>498,989</b>
Net income recognized in income statement	—	—	10,709	—	10,709	201	10,910
Available-for-sale investments	—	—	—	774	774	—	774
Cash flow hedges	—	—	—	—	—	—	—
Currency translation of foreign operations	—	—	—	2,083	2,083	116	2,199
<b>Total comprehensive income</b>	<b>—</b>	<b>—</b>	<b>10,709</b>	<b>2,857</b>	<b>13,566</b>	<b>318</b>	<b>13,884</b>
Dividends	—	—	(10,884)	—	(10,884)	(429)	(11,313)
Equity compensation plans, net of transaction in own equity instruments	—	66	—	—	66	—	66
Own equity instruments	—	(1)	—	—	(1)	—	(1)
Other movements	—	—	102	—	102	—	102
<b>At March 31, 2012</b>	<b>72,967</b>	<b>64,450</b>	<b>371,487</b>	<b>(8,272)</b>	<b>500,632</b>	<b>1,095</b>	<b>501,727</b>



## **(5) Notes regarding the Assumption as a Going Concern**

None

## **(6) Notes regarding Major Changes in the Interim Condensed Consolidated Financial Statements**

### **1. Significant Accounting Policies**

#### **1. Basis of preparation**

These financial statements are the interim condensed consolidated financial statements (hereafter ‘the Interim Financial Statements’) of Chugai Pharmaceutical Co., Ltd. (‘Chugai’), a company incorporated in Tokyo, Japan, and its subsidiaries. The common stock of Chugai Pharmaceutical Co., Ltd. is publicly traded and is listed on the Tokyo Stock Exchange under the stock code ‘TSE: 4519.’ The Interim Financial Statements were approved by the Board of Directors at a meeting held on April 25, 2013.

Chugai is 59.89%, which is the percentage of total number of issued shares (including treasury stock held by Chugai) owned by Roche Holding Ltd., a public company registered in Switzerland and parent company of Roche, which discloses its results with International Financial Reporting Standards (IFRS). Chugai and its subsidiaries became principal members of Roche after entering into a strategic alliance in October 2002.

The Chugai Group meets all of the requirements for the “Specified Company,” which is stipulated under Article 1-2, Paragraph 1, Item 1 of the “Regulations Concerning Terminology, Forms, and Preparation Methods of Consolidated Financial Statements” (Ministry of Finance of Japan Regulation No. 28, 1976). Hence, and in accordance with Article 93 of the “Ordinance on Terminology, Forms and Preparation Methods of Quarterly Consolidated Financial Statements” (Japanese Cabinet Ordinance No. 64, 2007), the Interim Financial Statements have been prepared in accordance with the International Accounting Standard (IAS) No. 34.

The Interim Financial Statements are denominated in Japanese yen and the amounts are rounded to the nearest ¥1 million. The measurement uses the historical cost convention, except for some items which are disclosed based on fair value, such as derivatives and available-for-sale investments.

The Interim Financial Statements are the first financial statements for the Chugai Group prepared in accordance with IFRS. Previously, consolidated financial statements were prepared in conformity with accounting principles generally accepted in Japan (JGAAP). The most recent consolidated financial statements prepared under JGAAP were for the fiscal year ended December 31, 2012.

The date of transition to IFRS for the Chugai Group is January 1, 2012. Included in Note 2 to these financial statements are reconciliations of Chugai’s equity under JGAAP as compared to under IFRS as at January 1, 2012, March 31, 2012, and December 31, 2012. Note 2 also includes a reconciliation of the net income and comprehensive income reported for the year ended December 31, 2012 and March 31, 2012 between JGAAP and IFRS.

The Chugai Group applies significant accounting policies to the Interim Financial Statements consistently throughout all the periods, including the consolidated balance sheet on date of transition to IFRS, as presented in these financial statements.

### **2. Significant accounting policies**

#### **Consolidation policy**

Subsidiaries are all companies (including structured entities) over which the Chugai Group has control. Chugai controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Companies acquired during the year are consolidated from the date on which control is transferred to the Chugai Group, and subsidiaries to be divested are included up to the date on which control passes from the Chugai Group. Inter-company balances, transactions, and resulting unrealized income are eliminated in full. Changes in ownership interests in subsidiaries are accounted for as equity transactions if they occur after control has already been obtained and if they do not result in a loss of control.

Investments in associates are accounted for using the equity method. There are companies over which the Chugai Group exercises, or has the power to exercise, significant influence, but which it does not control. This is normally evidenced when the Chugai Group owns 20% or more of the voting rights or currently exercisable potential voting rights of the company.

### **Functional currency and foreign currency translation**

Most Chugai Group companies use their local currency as their functional currency. Certain Group companies use other currencies (such as the euro) as their functional currency where this is the currency of the primary economic environment in which the entity operates. Local transactions in other currencies are initially reported using the exchange rate at the date of the transaction. Gains and losses from the settlement of such transactions and gains and losses on translation of monetary assets and liabilities denominated in other currencies are included in income.

Upon consolidation, assets and liabilities of Group companies using functional currencies other than the Japanese yen (foreign entities) are translated into Japanese yen using year-end rates of exchange. Sales, costs, expenses, net income, and cash flows are translated at the average rates of exchange for the year. Translation differences due to the changes in exchange rates between the beginning and the end of the year and the difference between net income translated at the average and year-end exchange rates are taken directly to other comprehensive income.

### **Revenues**

Sales represent amounts received and receivable for goods supplied to customers after deducting trade discounts, cash discounts, and volume rebates, and exclude sales taxes and other taxes directly linked to sales. Revenues from the sale of products are recognized upon transfer to the customer of significant risks and rewards. Trade discounts, cash discounts, and volume rebates are recorded on an accrual basis consistent with the recognition of the related sales. Sales returns, charge-backs, and other rebates are also deducted from sales and recorded as accrued liabilities or provisions or as a deduction from accounts receivable. Royalties and other operating income are recorded as earned or as the services are performed. Where necessary, single transactions are split into separately identifiable components to reflect the substance of the transaction. Conversely, two or more transactions may be considered together for revenue recognition purposes, where the commercial effect cannot be understood without reference to the series of transactions as a whole.

### **Cost of sales**

Cost of sales includes the corresponding direct production costs and related production overheads of goods sold and services rendered. Royalties, alliance, and collaboration expenses, including all collaboration profit-sharing arrangements, are also reported as part of cost of sales. Start-up costs between validation and the achievement of normal production capacity are expensed as incurred.

### **Research and development**

Internal research costs are those costs incurred for the purpose of gaining new scientific or technical knowledge and understanding. These costs are expensed as incurred.

Internal development costs would qualify for capitalization as intangible assets only if all of the following criteria can be demonstrated:

- The technical feasibility of completing the development project successfully so that it will be available for use or sale.
- The intention to complete the development project.
- The ability to use or sell the results of the development project.
- That the development project would generate economic benefits. This would normally be evidenced by the existence and size of a market for the results of the project itself or the products that would result from the project.
- The availability of adequate technical, financial, and other resources to complete the development project.
- The ability to measure the development expenditure reliably that would qualify for capitalization as an intangible asset.

The development projects undertaken by the Chugai Group are subject to technical, regulatory, and other uncertainties, such that, in the opinion of management, the criteria for capitalization are not met prior to obtaining marketing approval by the regulatory authorities in major markets. Internal development costs that do not meet these criteria are, therefore, expensed as incurred.

Post-marketing studies after regulatory approval, such as phase IV costs in the pharmaceuticals business, are expensed as incurred. They generally involve safety surveillance and ongoing technical support of a drug after it receives marketing approval to be sold. They may be required by regulatory authorities or may be undertaken for safety or commercial reasons. The safety surveillance is designed to detect any rare or long-term adverse effects over a much larger patient population and longer time

period than was possible during earlier stages of development. The costs of such post-marketing studies are not capitalized as intangible assets, as in the opinion of management; they do not generate separately identifiable incremental future economic benefits that can be reliably measured.

In addition to its internal research and development activities, the Chugai Group is also the party to in-licensing and similar arrangements with its alliance partners. The Chugai Group may also acquire in-process research and development assets, either through business combinations or through purchases of specific assets.

In-process research and development resources acquired either through in-licensing arrangements, business combinations, or separate purchases are capitalized as intangible assets if they are controlled by the Chugai Group, are separately identifiable, and are expected to generate future economic benefits, even if uncertainty exists as to whether the research and development will ultimately result in a marketable product. Consequently, upfront and milestone payments to third parties for pharmaceutical products or compounds before regulatory marketing approval are recognized as intangible assets. Assets acquired through such arrangements are measured on the basis set out below in the 'Intangible assets' policy and are reviewed for impairment as set out below in the 'Impairment of property, plant and equipment and intangible assets' policy. Subsequent internal research and development costs incurred post-acquisition are treated in the same way as other internal research and development costs. Once available for use, such intangible assets are amortized on a straight-line basis over the period of the expected benefit and are reviewed for impairment at each reporting date. If research and development are embedded in contracts for strategic alliances, the Chugai Group carefully assesses whether upfront or milestone payments constitute funding of research and development work or acquisition of an asset.

#### **Licensing, milestone, and other upfront receipts**

Royalty income is recognized on an accrual basis in accordance with the substance of the respective licensing agreements. If the collectability of a royalty amount is not reasonably assured, those royalties are recognized as revenue when the cash is received. Certain Chugai Group companies receive upfront, milestone, and other similar payments from third parties relating to the sale or licensing of products or technology. Revenue associated with performance milestones is recognized based on achievement of the deliverables as defined in the respective agreements. Upfront payments and license fees for which there are subsequent deliverables are initially reported as deferred income and are recognized in income as earned over the period of the development collaboration or the manufacturing obligation.

#### **Employee benefits**

Short-term employee benefits include wages, salaries, social security contributions, paid annual leave and sick leave, bonuses, and non-monetary benefits for current employees. The costs are recognized in the appropriate heading within the operating results when the employee has rendered the associated service.

#### **Pensions and other post-employment benefits**

The Chugai Group's current and retired employees are covered by our defined contribution and defined benefit post-employment plans.

For defined contribution plans, the contributions by the Chugai Group are charged to the appropriate heading within the operating results when the employee has rendered the associated service.

For defined benefit plans, the liability or asset recognized in the balance sheet is the present value of the defined benefit obligation less the fair value of the plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds. The corporate bonds are denominated in the currency in which the benefits will be paid, and have maturity terms approximating to the terms of the related pension obligation. All changes in the net defined benefit liability (asset) are recognized as they occur as follows:

Recognized in the income statement:

- Current service costs are charged to the appropriate heading within the operating results;
- Past service costs are recognized immediately to the appropriate heading within the operating results; and
- Net interest on the net defined benefit liability (asset) is recognized in financing costs.

Recognized in other comprehensive income:

- Actuarial gains and losses arising from experience adjustments (the difference between previous assumptions and what has actually occurred) and changes in actuarial assumptions; and

- The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset).

Net interest on the net defined benefit liability (asset) comprises interest income on plan assets and interest costs on the defined benefit obligation. The net interest is calculated using the same discount rate that is used in calculating the defined benefit obligation, applied to the net defined benefit liability (asset) at the start of the period, taking account of any changes from contribution or benefit payments.

### **Equity compensation plans**

Certain directors and employees of the Chugai Group participate in equity compensation plans. The fair value of all equity compensation awards granted to directors and employees is estimated at the grant date and recorded as an expense over the vesting period. The expense is charged to the appropriate income statement heading within the operating results. As these plans are all equity-settled plans, an increase in equity is recorded for this expense and any subsequent cash flows from exercises of vested awards are recorded as changes in equity.

### **Property, plant and equipment**

Property, plant and equipment are initially recorded at cost of purchase or construction, and include all costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. These include items such as costs of site preparation, installation and assembly costs, and professional fees. The net costs of testing whether the asset is functioning properly, including validation costs, are also included in the initially recorded cost of construction.

Property, plant and equipment are depreciated on a straight-line basis, except for land, which is not depreciated. The estimated useful lives of major classes of depreciable assets are as follows:

Land improvements	40 years
Buildings	10-50 years
Machinery and equipment	3-15 years

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate components. The estimated useful lives of the assets are regularly reviewed, and, if necessary, the future depreciation charges are accelerated. Repairs and maintenance costs are expensed as incurred.

### **Intangible assets**

Purchased patents, licenses, trademarks, and other intangible assets are initially recorded at cost. Where these assets have been acquired through a business combination, this will be the fair value allocated in the acquisition accounting. Intangible assets are amortized over their useful lives on a straight-line basis beginning from the point when they are available for use. The estimated useful life is the lower of the legal duration and the economic useful life. The estimated useful lives of intangible assets are regularly reviewed.

Estimated useful lives of major classes of amortizable intangible assets are as follows:

Product intangibles in use	4-20 years
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### **Impairment of property, plant and equipment and intangible assets**

An impairment assessment is carried out when there is evidence that an asset may be impaired. In addition, intangible assets that are not yet available for use are tested for impairment annually. When the recoverable amount of an asset, being the higher of its fair value less costs to sell and its value in use, is less than its carrying value, then the carrying value is reduced to its recoverable amount. This reduction is reported in the income statement as an impairment loss. Value in use is calculated using estimated cash flows. These are discounted using an appropriate long-term interest rate. When an impairment loss arises, the useful life of the asset in question is reviewed, and, if necessary, the future depreciation/amortization charge is accelerated. The impairment of financial assets is discussed below in the 'Financial assets' policy.

### **Inventories**

Inventories are stated at the lower of cost and net realizable value. The cost of finished goods and work in process includes raw materials, direct labor, and other directly attributable costs and overheads based upon the normal capacity of production facilities. Cost is determined using the weighted average method. Net realizable value is the estimated selling price less cost to completion and selling expenses.

**Accounts receivable**

Accounts receivable are carried at the original invoice amount less allowances made for doubtful accounts, trade discounts, cash discounts, volume rebates, and similar allowances. An allowance for doubtful accounts is recorded for the difference between the carrying value and the estimated recoverable amount where there is objective evidence that the Chugai Group will not be able to collect all amounts due. These estimates are based on specific indicators, such as the ageing of customer balances, specific credit circumstances, and historical experience, taking also into account economic conditions. Expenses for doubtful trade receivables are recognized in the consolidated income statement within marketing and distribution expenses. Trade discounts, cash discounts, volume rebates, and similar allowances are recorded on an accrual basis consistent with the recognition of the related sales, using estimates based on existing contractual obligations, historical trends, and experience.

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand and time, call, and current balances with banks and similar institutions. Such balances are only reported as cash if they are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value, and have a maturity of three months or less from the date of acquisition.

**Provisions**

Provisions are recognized where a legal or constructive obligation has been incurred which will probably lead to an outflow of resources that can be reasonably estimated. In particular, restructuring provisions are recognized when the Chugai Group has a detailed formal plan that has either commenced implementation or been announced. Provisions are recorded for the estimated ultimate liability that is expected to arise, taking into account the time value of money, where material. A contingent liability is disclosed where the existence of the obligation will only be confirmed by future events or where the amount of the obligation cannot be measured with reasonable reliability. Contingent assets are not recognized, but are disclosed where an inflow of economic benefits is probable.

**Fair values**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It is determined by reference to quoted market prices or by the use of established valuation techniques such as option pricing models and the discounted cash flows method if quoted prices in an active market are not available. Valuation techniques will incorporate observable market data about market conditions and other factors that are likely to affect the fair value of a financial instrument. Valuation techniques are typically used for derivative financial instruments. The fair values of financial assets and liabilities at the reporting date are not materially different from their reported carrying values unless specifically mentioned in the Notes to the Interim Financial Statements.

**Financial assets**

Financial assets, principally investments, including marketable securities, are classified as either 'Fair-value-through-profit-or-loss', 'Available-for-sale', 'Held-to-maturity', or 'Loans and receivables'.

Fair-value-through-profit-or-loss financial assets are either classified as held-for-trading or designated upon initial recognition. Held-to-maturity financial assets are securities with a fixed maturity that the Chugai Group has the intent and ability to hold until maturity. Loans and receivables are financial assets created by the Chugai Group or acquired from the issuer in a primary market. They are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. All other financial assets are considered to be available-for-sale.

All financial assets are initially recorded at fair value, including transaction costs, except for assets at fair-value-through-profit-or-loss, which exclude transaction costs. All purchases and sales are recognized on the settlement date. Fair-value-through-profit-or-loss financial assets are subsequently carried at fair value, with all changes in fair value recorded as financial income (expense) in the period in which they arise. Held-to-maturity financial assets are subsequently carried at amortized cost using the effective interest rate method. Available-for-sale financial assets are subsequently carried at fair value, with all unrealized changes in fair value recorded in other comprehensive income, except for interest calculated using the effective interest rate method. When the available-for-sale financial assets are sold, impaired or otherwise disposed of, the cumulative gains and losses previously recognized in other comprehensive income are included in financial income (expense) for the current period. Loans and receivables are subsequently carried at amortized cost using the effective interest rate method.

Financial assets are individually assessed for possible impairment at each reporting date. An impairment charge is recorded where there is objective evidence of impairment, such as where the issuer is in bankruptcy, default, or other significant financial difficulty. In addition, any equity securities that have a market value of more than 25% below their original cost or have a market value below their original cost for a sustained six-month period will be considered as impaired.

For financial assets carried at amortized cost, any impairment charge is the difference between the carrying value and the recoverable amount, calculated using estimated future cash flows discounted using the original effective interest rate. For available-for-sale financial assets, any impairment charge is the amount currently carried in other comprehensive income for the difference between the original cost, net of any previous impairment, and the fair value. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For debt securities measured at amortized cost or available-for-sale, the reversal is recognized in financial income (expense). For equity securities held available-for-sale, any change in fair values after an impairment loss is recognized directly in other comprehensive income.

A financial asset is derecognized when the contractual cash flows from the asset expire or when the Chugai Group transfers the rights to receive the contractual cash flows from the financial assets in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest or obligation in transferred financial assets that is created or retained by the Chugai Group is recognized as a separate asset or liability.

### **Derivatives**

Derivative financial instruments are initially recorded and subsequently carried at fair value. Apart from those derivatives designated as qualifying cash flow hedging instruments as discussed in the 'Hedge accounting' policy below, all changes in fair value are recorded as financial income (expense) in the period in which they arise.

### **Hedge accounting**

A 'fair value hedge' is a hedge of the exposure to changes in fair value of a recognized asset or liability, or an unrecognized firm commitment, or an identified portion of such an asset, liability, or firm commitment, that is attributable to a particular risk and could affect profit or loss. A 'cash flow hedge' is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss.

To qualify for hedge accounting, the hedging relationship must meet several strict conditions on documentation, probability of occurrence (for cash flow hedges), hedge effectiveness, and reliability of measurement. If these conditions are not met, then the relationship does not qualify for hedge accounting. In this case, the hedging instrument and the hedged item are reported independently as if there were no hedging relationship. In particular, any derivatives are reported at fair value, with changes in fair value included in financial income (expense).

### **Taxation**

Income taxes include all taxes based upon the taxable profits of the Chugai Group, including withholding taxes payable on the distribution of retained earnings with the Chugai Group. Other taxes not based on income, such as property and capital taxes, are included within general and administration expenses.

Liabilities for income taxes, mainly withholding taxes, which could arise on the remittance of retained earnings, principally relating to subsidiaries, are only recognized where it is probable that such earnings will be remitted in the foreseeable future.

Deferred income tax assets and liabilities are recognized on temporary differences between the tax bases of assets and liabilities and their carrying values in the financial statements. Deferred income tax assets relating to the carry forward of unused tax losses are recognized to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized.

Current and deferred income tax assets and liabilities are offset when the income taxes are levied by the same taxation authority and when there is a legally enforceable right to offset them. Deferred income tax assets and liabilities are determined based on the currently enacted tax rates applicable in each tax jurisdiction where the Chugai Group operates.

### **Own equity instruments**

The Chugai Group's holdings in its own equity instruments are recorded as a deduction from equity. The original purchase cost, consideration received for subsequent resale of these equity instruments and other movements are reported as changes in equity. These instruments have been acquired primarily to meet the potential obligations to employees that may arise in respect of certain of the Chugai Group's equity compensation plans.

**Management judgments made in applying accounting policies**

The application of the Chugai Group's accounting policies may require management to make judgments, apart from those involving estimates, that can have a significant effect on the amounts recognized in the consolidated financial statements. Management judgment is particularly required when assessing the substance of transactions that have a complicated structure or legal form. These include, but are not limited to, the following areas:

**Revenue recognition:** Revenue is only recognized when, in management's judgment, the significant risks and rewards of ownership have been transferred and when the Chugai Group does not retain continuing managerial involvement or effective control over the goods sold or when the obligation has been fulfilled. For some transactions, this can result in cash receipts being initially recognized as deferred income and then released to income over subsequent periods on the basis of the performance of the conditions specified in the agreement.

**Key assumptions and sources of estimation uncertainty**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income, expenses, and related disclosures. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based, or as a result of new information or more experience. Such changes are recognized in the period in which the estimate is revised.

The key assumptions about the future and key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next 12 months are described below.

**Sales allowances:** The Chugai Group has provisions and accruals for expected rebates. Such estimates are based on analyses of existing contractual or legislatively mandated obligations, historical trends, and past experience. Management believes that the total provisions and accruals for these items are adequate, based upon currently available information. As these deductions are based on management estimates, they may be subject to change as better information becomes available. Such changes that arise could impact the provisions and accruals recognized in the balance sheet in future periods and consequently the level of sales recognized in the income statement in future periods.

**Property, plant and equipment and intangible assets:** To assess whether any impairment exists, estimates are made of the future cash flows expected to result from the use of the asset and its eventual disposal. Actual outcomes could vary significantly from such estimates of discounted future cash flows. Factors such as changes in the planned use of buildings, machinery or equipment, or closure of facilities, the presence or absence of competition, technical obsolescence, or lower-than-anticipated sales of products with capitalized rights could result in shortened useful lives or impairment. Changes in the discount rates used could also lead to impairments.

**Pensions and other post-employment benefits:** The Chugai Group's current and retired employees are covered by our defined contribution and defined benefit post-employment plans. The calculations of the recognized assets and liabilities from such plans are based upon statistical and actuarial calculations. In particular, the present value of the defined benefit obligation is impacted by assumptions on discount rates used to arrive at the present value of future pension liabilities, and assumptions on future increases in salaries and benefits. Furthermore, the Chugai Group's independent actuaries use statistically based assumptions covering areas such as future withdrawals of participants from the plan and estimates of average life expectancy. The actuarial assumptions used may differ materially from actual results due to changes in market and economic conditions, higher or lower withdrawal rates, longer or shorter life spans of participants, and other changes in the factors being assessed. These differences could impact the assets or liabilities recognized in the balance sheet in future periods.

**Income taxes:** Significant estimates are required to determine the current and deferred assets and liabilities for income taxes. Some of these estimates are based on interpretations of existing tax laws or regulations. Management believes that the estimates are reasonable and that the recognized liabilities for income tax-related uncertainties are adequate. Various internal and external factors may have favorable or unfavorable effects on the income tax assets and liabilities. These factors include, but are not limited to, changes in tax laws, regulations and/or rates, changing interpretations of existing tax laws or regulations, future levels of research and development spending, and changes in overall levels of pre-tax earnings. Such changes that arise could impact the assets and liabilities recognized in the balance sheet in future periods.

## 2. Transition to International Financial Reporting Standards

The Interim Financial Statements are the first financial statements for the Chugai Group prepared using International Financial Reporting Standards (IFRS). The date of transition to IFRS is January 1, 2012. Previously, the Chugai Group prepared its financial statements in conformity with accounting principles generally accepted in Japan (JGAAP). The year ended December 31, 2012 was the most recent period for the Chugai Group's consolidated financial statements issued under JGAAP.

Roche has issued consolidated financial statements using IFRS since 1990. Since entering into the strategic alliance, as a member of Roche, the Chugai Group has prepared financial reports in accordance with IFRS for inclusion in Roche's consolidated financial statements.

The Chugai Group voluntarily adopted International Financial Reporting Standards (IFRS) Article 1, Paragraph D16, Item (a) "First-time Adoption of International Financial Reporting Standards" for their first-time IFRS adoption, and has measured their book value of assets and liabilities, based on the book value included in Roche's consolidated financial statements (excluding the impact of business combination accounting of the Chugai Group by Roche).

### Reconciliation of equity

(Millions of Yen)

January 1, 2012

(Date of transition to IFRS)

	December 31, 2012	March 31, 2012	January 1, 2012 (Date of transition to IFRS)
<b>Total net assets in previously published JGAAP financial statements</b>	<b>490,075</b>	<b>460,758</b>	<b>459,073</b>
(a) Property, plant and equipment	60,784	60,561	60,420
(b) Intangible assets	4,865	4,540	4,714
(c) Pensions and other post-employment benefits	4,652	2,507	2,608
(d) Long-term prepaid expense	2,060	2,415	2,534
(e) Inventories	(481)	(1,409)	(2,149)
(f) Deferred income	(7,521)	(2,904)	(3,027)
(g) Accrued vacation	(2,946)	(3,028)	(2,995)
Other differences	(179)	(192)	(217)
(h) Income taxes	(22,148)	(21,521)	(21,972)
<b>Total adjustments to total net assets</b>	<b>39,086</b>	<b>40,969</b>	<b>39,916</b>
<b>Equity in these IFRS financial statements</b>	<b>529,161</b>	<b>501,727</b>	<b>498,989</b>

### Reconciliation of net income

(Millions of Yen)

FY 2012

(Jan. 1, 2012 - Dec. 31, 2012)

First three months of FY 2012

(Jan. 1, 2012 - Mar. 31, 2012)

<b>Income before minority interests in previously published JGAAP financial statements</b>	<b>48,992</b>	<b>9,544</b>
(a) Property, plant and equipment	1,060	63
(b) Intangible assets	369	(32)
(c) Pensions and other post-employment benefits	208	49
(d) Long-term prepaid expense	(474)	(119)
(e) Inventories	1,393	740
(f) Deferred income	(4,640)	37
(g) Accrued vacation	49	(34)
Other differences	(610)	424
(h) Income taxes	494	238
<b>Total adjustments to net income</b>	<b>(2,151)</b>	<b>1,366</b>
<b>Net income in these IFRS consolidated financial statements</b>	<b>46,841</b>	<b>10,910</b>



**Reconciliation of comprehensive income**

(Millions of Yen)

	FY 2012 (Jan. 1, 2012 - Dec. 31, 2012)	First three months of FY 2012 (Jan. 1, 2012 – Mar. 31, 2012)
<b>Comprehensive income in previously published JGAAP consolidated financial statements</b>	<b>53,318</b>	<b>12,831</b>
Total adjustments to net income (from previous table)	(2,151)	1,366
(c) Pensions and other post-employment benefits	1,275	—
Other differences	46	(313)
<b>Total adjustments to comprehensive income</b>	<b>(830)</b>	<b>1,053</b>
 <b>Comprehensive income in these IFRS consolidated financial statements</b>	 <b>52,488</b>	 <b>13,884</b>

**Notes to the reconciliations**

- (a) Under IFRS, the straight-line method is applied to depreciation of property, plant and equipment excluding lease assets, whereas the declining-balance method is used in JGAAP. The period of useful lives is different as well. Start-up and validation costs are expensed as incurred under JGAAP, whereas they are included in the acquisition cost of machinery and equipment under IFRS.
- (b) In-licensing contract payments are recognized as intangible assets under IFRS, while they are expensed under JGAAP.
- (c) Some of the calculations for employee benefit obligations are different, such as the allocation method and discount rate. Actuarial gain and loss are amortized by the declining-balance method over the period of average remaining service years of employees at the time of occurrence from the following year of occurrence under JGAAP. Under IFRS, actuarial gain and loss are recognized in the other comprehensive income in the consolidated comprehensive income statement.
- (d) Start-up and validation costs at outsourced plants are expensed as incurred under JGAAP, whereas they are treated as long-term prepaid expenses under IFRS.
- (e) The difference in the production cost is adjusted caused by the difference in depreciation and so on.
- (f) Up-front income from an out-licensing contract is recognized as one-time income under JGAAP, whereas it is treated as deferred income under IFRS.
- (g) Unused paid annual leave is not recognized under JGAAP, but it is accrued under IFRS.
- (h) The matters described above in (a)–(g) result in deferred tax differences between the JGAAP and IFRS financial statements. In addition, there is the difference in the tax rate used for the calculation of the tax effect to eliminate unrealized gains.

**Explanation of material adjustments to the cash flow statement for the year ended December 31, 2012**

There are no significant differences between the consolidated cash flow statements which are already disclosed in conformity with JGAAP and IFRS.