



CHUGAI PHARMACEUTICAL CO., LTD.

A member of the Roche group

CONSOLIDATED FINANCIAL STATEMENTS (IFRS) (Non-Audited)

(for the first quarter of fiscal year 2014)

Name of Company: Chugai Pharmaceutical Co., Ltd. April 24, 2014
 Stock Listing: Tokyo Stock Exchange
 Security Code No.: 4519 (URL <http://www.chugai-pharm.co.jp/english>)
 Representative: Osamu Nagayama, Representative Director, Chairman and CEO
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 Date of Submission of Quarterly Marketable Securities Filings: April 28, 2014
 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.)

1. Consolidated results for the first quarter of FY 2014 (January 1, 2014–March 31, 2014)

(1) Consolidated results

	Revenues	% change	Operating profit	% change	Profit before taxes	% change
First three months of FY 2014	¥124,045 million	37.2	¥31,089 million	112.0	¥31,263 million	128.9
First three months of FY 2013	¥90,416 million	0.1	¥14,663 million	(17.9)	¥13,660 million	(21.8)

	Net income	% change	Net income attributable to Chugai shareholders	% change	Total comprehensive income	% change
First three months of FY 2014	¥19,080 million	107.6	¥18,776 million	111.0	¥16,727 million	39.8
First three months of FY 2013	¥9,190 million	(15.8)	¥8,897 million	(16.9)	¥11,965 million	(13.8)

	Net income per share (Basic)	Net income per share (Diluted)
First three months of FY 2014	¥34.46	¥34.41
First three months of FY 2013	¥16.35	¥16.33

Notes: 1. Percentages represent changes compared with the same period of the previous fiscal year.

2. The item "Attributable to Chugai shareholders" excludes the portion attributable to non-controlling interests.

(2) Consolidated results (balance sheet)

	Total assets	Total equity	Equity attributable to Chugai shareholders	Ratio of equity attributable to Chugai shareholders
As of Mar. 31, 2014	¥701,565 million	¥577,363 million	¥575,968 million	82.1%
As of Dec. 31, 2013	¥697,212 million	¥573,204 million	¥571,692 million	82.0%

Note: The item "Attributable to Chugai shareholders" excludes the portion attributable to non-controlling interests.

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. 2013	—	¥22.00	—	¥23.00	¥45.00
FY ending Dec. 2014	—				
FY ending Dec. 2014 (Forecast)		¥22.00	—	¥23.00	¥45.00

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

3. Consolidated forecasts for the FY 2014 (January 1, 2014–December 31, 2014)

	Revenues	% change	Core operating profit	% change	Core earnings per share		Core dividend payout ratio %
First three months of FY 2014 (Results)	¥124,045 million	27.5	¥31,448 million	44.3	¥34.82	42.1	—
FY ending Dec. 2014 (Forecast)	¥451,000 million	6.5	¥71,000 million	(11.2)	¥82.62	(12.7)	54.5

Notes: 1. Percentages shown for forecasts of revenues, Core operating profit and Core EPS 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 and actuals are calculated based on Core basis indicators established by Chugai and used on a consistent basis.

4. Others

(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)

As of Mar. 31, 2014	559,685,889	As of Dec. 31, 2013	559,685,889
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(b) Number of treasury stock at the end of the period

As of Mar. 31, 2014	14,790,468	As of Dec. 31, 2013	14,944,320
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(c) Average number of shares issued during the period (three months)

First three months of FY 2014	544,789,781	First three months of FY 2013	544,288,787
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Notes:

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) 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.

(2) The forecast which is published for shareholders and investors is based on the internal management indicator Core basis. The difference between International Financial Reporting Standards (“IFRS”) results and Core results will be explained at each event and presentation.

(3) For the specifics of the forecasts, please refer to “Forecast for consolidated performance” on page 5.

(4) Chugai 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 securities analysts (Japanese only): April 24, 2014, Thursday (Japan time). The English translation of the conference call will be posted on the website on the next business day.

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1. Qualitative Information

(1) Consolidated operating results in billions of yen

	First three months of FY 2014.12 (Jan. 1, 2014–Mar. 31, 2014)	First three months of FY 2013.12 (Jan. 1, 2013–Mar. 31, 2013)	% change
Core results			
Revenues	124.0	90.4	+37.2
Sales (excluding Tamiflu)	107.3	78.7	+36.3
Tamiflu sales	6.9	8.3	(16.9)
Royalties and other operating income	9.8	3.4	+188.2
Cost of sales	(55.3)	(40.6)	+36.2
Gross profit	68.8	49.9	+37.9
Marketing and distribution	(16.6)	(16.1)	+3.1
Research and development	(18.2)	(16.4)	+11.0
General and administration	(2.6)	(2.3)	+13.0
Operating profit	31.4	15.1	+107.9
Net income	19.3	9.5	+103.2
IFRS results			
Revenues	124.0	90.4	+37.2
Operating profit	31.1	14.7	+111.6
Net income	19.1	9.2	+107.6

Consolidated financial highlights (IFRS results)

Revenues for the first quarter were ¥124.0 billion (an increase of 37.2% year on year), operating profit for the first quarter was ¥31.1 billion (an increase of 111.6% year on year), and net income for the first quarter was ¥19.1 billion (an increase of 107.6% year on year). These results include non-Core items, such as amortization of intangible assets of ¥0.3 billion, restructuring costs of ¥0.1 billion, and other items, which are excluded from the Core results managed by Chugai.

Consolidated financial highlights (Core results)

Revenues for the first quarter were ¥124.0 billion (an increase of 37.2% year on year) due to the strong growth in sales and increasing royalties and other operating income.

Of revenues, sales excluding Tamiflu showed significant growth, reaching ¥107.3 billion (an increase of 36.3% year on year). This was due to the steady growth of new products and major products and a temporary rise in demand for some products in view of the increase in consumption tax in Japan, which will apply from April 1, 2014. In addition, for overseas sales, the impact of depreciation of the yen and increase in export of Actemra (a humanized anti-IL-6 receptor monoclonal antibody) in volume basis due to the timing of shipments to the Roche Group (“Roche”) also contributed to the growth. Furthermore, royalties and other operating income also significantly increased year on year to reach ¥9.8 billion (an increase of 188.2%), thanks to the rise in milestone revenues and an increase in royalties and profit sharing income related to an increase in overseas sales of Actemra by Roche.

Cost of sales were ¥55.3 billion (an increase of 36.2% year on year) as a result of the increase in sales, along with an increase in the cost of sales ratio due to significant depreciation of the yen. Gross profit amounted to ¥68.8 billion (an increase of 37.9% year on year) thanks to a substantial increase in revenues including royalties and other operating income.

Marketing and distribution expenses were ¥16.6 billion (an increase of 3.1% year on year), due primarily to an increase in expenses of overseas sales companies in yen terms, owing to the depreciation of the yen. Research and development expenditures were ¥18.2 billion (an increase of 11.0% year on year) due again to the depreciation of the yen, as well as the progress in development projects originating in Chugai and build-up of the operation of Chugai Pharmabody Research Pte. Ltd. in Singapore. General and administration expenses were ¥2.6 billion (an increase of 13.0% year on year) due to the rise in various expenses.

As a result, Core operating profit was ¥31.4 billion (an increase of 107.9% year on year). Core net income was ¥19.3 billion (an increase of 103.2% year on year), with the slightly lower growth being due to the one-time recording of

deferred tax expense associated with the scheduled change in tax rate from the following fiscal year.

Note: Core results

Chugai discloses its results on a Core basis from 2013 in conjunction with its decision to apply IFRS. Core results are the results after adjusting non-Core items to IFRS results, and are consistent with the Core concept disclosed by Roche. Core results are used by Chugai as an internal performance indicator, for explaining the underlying business performance both internally and externally, and as the basis for payment-by-results such as a return to shareholders.

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

Sales by product domain in billions of yen

	First three months of FY 2014.12 (Jan. 1, 2014–Mar. 31, 2014)	First three months of FY 2013.12 (Jan. 1, 2013–Mar. 31, 2013)	% change
Sales	114.2	87.0	+31.3
Domestic sales (excluding Tamiflu)	85.2	68.8	+23.8
Oncology	45.4	35.5	+27.9
Bone and joint diseases	17.6	12.2	+44.3
Renal diseases	11.7	10.2	+14.7
Transplant, immunology, and infectious diseases	4.7	4.2	+11.9
Others	5.9	6.8	(13.2)
Tamiflu sales	6.9	8.3	(16.9)
Ordinary use	6.8	7.5	(9.3)
Government stockpiles	0.1	0.8	(87.5)
Overseas sales	22.1	9.9	+123.2

Domestic sales (excluding Tamiflu)

Domestic sales excluding Tamiflu were ¥85.2 billion (an increase of 23.8% year on year), due to a temporary rise in demand for some products in view of the increase in consumption tax, which will apply from April 1, 2014. In addition, there was the steady growth of new products and major products.

Oncology products sales were ¥45.4 billion (an increase of 27.9% year on year). Other than the aforementioned temporary rise in demand related to the scheduled increase in consumption tax, this increase was due to the steady expansion in sales of major oncology drugs such Avastin (an anti-VEGF humanized monoclonal antibody, anti-cancer agent) and Tarceva (an epidermal growth factor receptor (EGFR) tyrosine kinase inhibitor, anti-cancer agent). In addition, there was a contribution by Perjeta (an anti-HER2 humanized monoclonal antibody, anti-cancer agent) launched in September 2013 for the indication of HER2-positive breast cancer.

Bone and joint diseases products sales increased substantially to ¥17.6 billion (an increase of 44.3% year on year). This increase was led by the strong sales of Ediol, a top brand in the domestic market of oral therapeutic agents for osteoporosis, Actemra, whose subcutaneous injection formulation was launched in May 2013, and Bonviva (ibandronate sodium hydrate) launched in August 2013 also for the indication of osteoporosis.

Renal diseases product sales amounted to ¥11.7 billion (an increase of 14.7% year on year). The sales of Mircera (a long-lasting erythropoiesis-stimulating agent) grew primarily in the pre-dialysis market.

In the area of transplant, immunology, and infectious diseases products (excluding Tamiflu), sales were ¥4.7 billion (an increase of 11.9% year on year). This increase was due to increased sales of Pegasys (a peginterferon- α -2a) and Copegus (an anti-viral agent).

Tamiflu (an anti-influenza agent)

Sales of Tamiflu for ordinary use were ¥6.8 billion (a decrease of 9.3% year on year), while sales to government stockpiles etc. were ¥0.1 billion (a decrease of 87.5% year on year).

Overseas sales

Overseas sales were ¥22.1 billion (an increase of 123.2% year on year), due to the depreciation of the yen and an increase of Actemra exports to Roche in volume basis due to the difference in the timing of shipment.

(2) Consolidated financial position**Assets, liabilities, and net assets** in billions of yen

	March 31, 2014	December 31, 2013	% change
Movements of assets and liabilities			
Net working capital	187.0	177.1	+5.6
Long-term net operating assets	147.0	148.1	(0.7)
Net operating assets (NOA)	333.9	325.2	+2.7
Net cash	230.3	234.4	(1.7)
Other non-operating assets - net	13.1	13.6	(3.7)
Total net assets	577.4	573.2	+0.7
Consolidated balance sheet (IFRS basis)			
Total assets	701.6	697.2	+0.6
Total liabilities	(124.2)	(124.0)	+0.2
Total net assets	577.4	573.2	+0.7

Net working capital at March 31, 2014 was ¥187.0 billion (an increase of ¥9.9 billion since December 31, 2013). This was due to an increase in accounts receivables accompanying expansion in the scale of major product sales and other factors. In addition, long-term net operating assets were ¥1.1 billion lower than at the end of the previous fiscal year due to the depreciation of property, plant and equipment and other factors, and stood at ¥147.0 billion. As a result, net operating assets (NOA) were ¥333.9 billion, ¥8.7 billion higher than at the end of the previous fiscal year.

As the table entitled “Cash flows” on the next page indicates, net cash, including marketable securities and interest-bearing debt, decreased by ¥4.1 billion since December 31, 2013 to ¥230.3 billion. Also, other non-operating assets - net decreased by ¥0.5 billion since the end of the previous fiscal year to ¥13.1 billion due mainly to a decrease in foreign exchange contracts assets.

As a consequence, total net assets were ¥577.4 billion (an increase of ¥4.2 billion since December 31, 2013).

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, “Movements of assets and liabilities” including net operating assets (NOA) are a reconfiguration of the consolidated balance sheet as internal indicators and are identical to the indicators 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 Supplementary Materials on page 8, entitled “Movements of assets and liabilities”.

Cash flows in billions of yen

	First three months of FY 2014.12 (Jan. 1, 2014–Mar. 31, 2014)	First three months of FY 2013.12 (Jan. 1, 2013–Mar. 31, 2013)	% change
Movements of free cash flows			
Operating profit - IFRS basis	31.1	14.7	+111.6
Operating cash flows after adjustments	36.1	18.9	+91.0
Operating free cash flows	22.4	21.0	+6.7
Free cash flows	(3.6)	(1.9)	+89.5
Net change in net cash	(4.1)	(0.1)	41 times
Consolidated statement of cash flows (IFRS basis)			
Cash flows from operating activities	15.4	14.0	+10.0
Cash flows from investing activities	(2.7)	1.4	—
Cash flows from financing activities	(12.5)	(10.9)	+14.7
Net change in cash and cash equivalents	(0.1)	5.1	—
Cash and cash equivalents at March 31	115.0	100.6	+14.3

Operating profit, net of operating cash adjustments, are calculated by adjusting for depreciation and other items that are included in operating profit but are not accompanied by cash inflows or outflows and all inflows and outflows related to NOA that are not accompanied by profit and loss. This amounted to an adjustment to the net cash of ¥36.1 billion. The principal items influencing this result were a total of ¥3.4 billion in property, plant and equipment depreciation.

Operating free cash flows, which are calculated by deducting an increase in net working capital of ¥7.4 billion and subtracting expenditures of ¥6.3 billion for the purchase of property, plant and equipment and intangible assets from operating profit, net of operating cash adjustments, amounted to a net inflow of ¥22.4 billion. Factors accounting for the change in net working capital are as shown on the previous page in the table entitled “Assets, Liabilities, and Net Assets”. Purchases of property, plant and equipment were mainly expenditures for R&D equipment and plant production machinery.

Free cash flows (“FCF”) were a net cash outflow of ¥3.6 billion. This is calculated by subtracting a total of ¥25.9 billion of non-operating cash outflows from financial asset management, income taxes paid, and dividends paid from operating free cash flows.

As a result, the net change in net cash, after foreign currency translation adjustments, decreased ¥4.1 billion in comparison with the same period of the previous fiscal year. The net change in cash and cash equivalents, excluding changes in marketable securities and interest-bearing debt, was a net cash outflow on an IFRS basis of ¥0.1 billion. The cash and cash equivalents balance at the end of this period amounted to ¥115.0 billion.

Note: Movements of free cash flows (FCF)

The consolidated statement of cash flows has been prepared in accordance with the International Accounting Standard (IAS) No. 7, “Statement of Cash Flows”. The FCF is a reconfiguration of the consolidated statement of cash flows as internal indicators and is identical to the indicators disclosed by Roche. Furthermore, no items from the FCF have been excluded, as the Core results concept only applies to the income statement.

For further details, please refer to the Supplementary Materials on page 9, entitled “Movements of free cash flows”.

(3) Forecast for consolidated performance

Chugai has not made any changes in its forecast of consolidated results for the fiscal year ending December 31, 2014 since the announcement regarding the forecast issued on January 30, 2014.

Note: In “1. Qualitative Information” 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 income statement and interim condensed consolidated statement of comprehensive income

1) Interim condensed consolidated income statement in millions of yen

	First three months ended March 31	
	2014	2013
Revenues	124,045	90,416
Sales	114,234	87,025
Royalties and other operating income	9,810	3,391
Cost of sales	(55,502)	(40,783)
Gross profit	68,543	49,633
Marketing and distribution	(16,604)	(16,133)
Research and development	(18,295)	(16,488)
General and administration	(2,556)	(2,348)
Operating profit	31,089	14,663
Financing costs	(15)	(16)
Other financial income (expense)	189	(988)
Profit before taxes	31,263	13,660
Income taxes	(12,183)	(4,470)
Net income	19,080	9,190
Attributable to:		
Chugai shareholders	18,776	8,897
Non-controlling interests	304	293
Earnings per share		
Basic (yen)	34.46	16.35
Diluted (yen)	34.41	16.33

2) Interim condensed consolidated statement of comprehensive income in millions of yen

	First three months ended March 31	
	2014	2013
Net income	19,080	9,190
Other comprehensive income		
Remeasurements of defined benefit plans	-	-
Items that will not be reclassified to the income statement	-	-
Available-for-sale investments	224	1,063
Cash flow hedges	(1,612)	(18)
Currency translation of foreign operations	(965)	1,730
Items that may be reclassified subsequently to the income statement	(2,353)	2,775
Other comprehensive income, net of tax	(2,353)	2,775
Total comprehensive income	16,727	11,965
Attributable to:		
Chugai shareholders	16,460	11,584
Non-controlling interests	267	382

(2) Interim condensed consolidated balance sheet in millions of yen

	March 31, 2014	December 31, 2013
Assets		
Non-current assets:		
Property, plant and equipment	139,437	140,445
Intangible assets	9,388	9,514
Financial non-current assets	9,314	9,066
Deferred tax assets	19,981	19,244
Defined benefit plan assets	3,745	3,862
Other non-current assets	10,734	10,846
Total non-current assets	192,600	192,977
Current assets:		
Inventories	129,475	128,536
Accounts receivable	136,458	128,182
Current income tax assets	67	205
Marketable securities	115,511	119,573
Cash and cash equivalents	115,009	115,070
Other current assets	12,445	12,669
Total current assets	508,965	504,235
Total assets	701,565	697,212
Liabilities		
Non-current liabilities:		
Long-term debt	(186)	(195)
Deferred tax liabilities	(10,733)	(12,211)
Defined benefit plan liabilities	(1,420)	(1,269)
Long-term provisions	(2,254)	(2,082)
Other non-current liabilities	(10,353)	(10,584)
Total non-current liabilities	(24,945)	(26,341)
Current liabilities:		
Short-term debt	(37)	(38)
Current income tax liabilities	(13,188)	(12,673)
Short-term provisions	(235)	(105)
Accounts payable	(58,420)	(59,544)
Other current liabilities	(27,377)	(25,307)
Total current liabilities	(99,257)	(97,667)
Total liabilities	(124,202)	(124,008)
Total net assets	577,363	573,204
Equity:		
Capital and reserves attributable to Chugai shareholders	575,968	571,692
Equity attributable to non-controlling interests	1,394	1,512
Total equity	577,363	573,204

(3) Interim condensed consolidated statement of cash flows in millions of yen

	First three months ended March 31	
	2014	2013
Cash flows from operating activities		
Cash generated from operations	36,907	19,620
(Increase) decrease in working capital	(7,378)	6,920
Payments made for defined benefit plans	(489)	(910)
Utilization of provisions	(29)	(1)
Other operating cash flows	(710)	89
Cash flows from operating activities, before income taxes paid	28,301	25,718
Income taxes paid	(12,891)	(11,673)
Total cash flows from operating activities	15,410	14,045
Cash flows from investing activities		
Purchase of property, plant and equipment	(5,591)	(4,637)
Purchase of intangible assets	(721)	(168)
Disposal of property, plant and equipment	(23)	1
Interest and dividends received	47	88
Purchases of marketable securities	(42,195)	(56,561)
Sales of marketable securities	45,715	62,647
Other investing cash flows	105	(1)
Total cash flows from investing activities	(2,662)	1,369
Cash flows from financing activities		
Interest paid	(1)	(3)
Dividends paid to Chugai shareholders	(12,370)	(10,672)
Dividends paid to non-controlling shareholders	(385)	(507)
Exercise of equity compensation plans	268	341
(Increase) decrease in own equity instruments	(2)	(2)
Other financing cash flows	(45)	(40)
Total cash flows from financing activities	(12,536)	(10,883)
Net effect of currency translation on cash and cash equivalents	(273)	578
Increase (decrease) in cash and cash equivalents	(61)	5,108
Cash and cash equivalents at January 1	115,070	95,445
Cash and cash equivalents at March 31	115,009	100,553

(4) Interim condensed consolidated statement of changes in equity in millions of yen**For the first three months ended March 31, 2014 (Jan. 1, 2014 – March 31, 2014)**

	Attributable to Chugai shareholders					Non-controlling interests	Total equity
	Share capital	Capital surplus	Retained earnings	Other reserves	Subtotal		
At January 1, 2014	72,967	65,768	426,213	6,744	571,692	1,512	573,204
Net income	-	-	18,776	-	18,776	304	19,080
Available-for-sale investments	-	-	-	224	224	-	224
Cash flow hedges	-	-	-	(1,612)	(1,612)	-	(1,612)
Currency translation of foreign operations	-	-	-	(928)	(928)	(37)	(965)
Total comprehensive income	-	-	18,776	(2,316)	16,460	267	16,727
Dividends	-	-	(12,529)	-	(12,529)	(385)	(12,914)
Equity compensation plans	-	19	-	-	19	-	19
Own equity instruments	-	327	-	-	327	-	327
At March 31, 2014	72,967	66,114	432,460	4,428	575,968	1,394	577,363

For the first three months ended March 31, 2013 (Jan. 1, 2013 – March 31, 2013)

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

(5) Notes regarding the going concern assumption

None

(6) Notes regarding the interim condensed consolidated financial statements**General accounting principles and significant accounting policies****(a) Basis of preparation of the consolidated financial statements**

These financial statements are the interim condensed consolidated financial statements (“Interim Financial Statements”) of Chugai Pharmaceutical Co., Ltd. (“Chugai”), a company registered in Japan, and its subsidiaries. The common stock of Chugai 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 on April 24, 2014.

Roche Holding Ltd. is a public company registered in Switzerland and the parent company of the Roche Group, which discloses its results in accordance with IFRS. The shareholding percentage of Roche Holding Ltd. in Chugai is 59.89%. Chugai and its subsidiaries became principal members of the Roche Group after entering into a strategic alliance in October 2002.

The Group meets all of the requirements for a “Specified Company” as stipulated under Article 1-2 of the “Regulations Concerning Terminology, Forms, and Preparation Methods of Consolidated Financial Statements” (Ministry of Finance of Japan Regulation No. 28, 1976). Hence, 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 “Interim Financial Reporting”.

The Interim Financial Statements should be used with the consolidated financial statements for the year ended December 31, 2013 as it does not include all the information as required for the consolidated financial statements for the full fiscal year.

The Interim Financial Statements are presented in Japanese yen, which is Chugai’s functional currency and amounts are rounded to the nearest ¥1 million. They have been prepared using the historical cost convention except for items that are required to be accounted for at fair value.

(b) Key accounting judgments, estimates and assumptions

The preparation of the Interim Financial Statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and contingent amounts. Actual outcomes could differ from those management estimates. The estimates and underlying assumptions are reviewed on an on-going basis and are based on historical experience and various other factors. Revisions to estimates are recognized in the period in which the estimate is revised.

The information for judgment, estimates and assumptions that have a material impact on the amount recognized in the Interim Financial Statements of the Group is principally the same for the prior fiscal year.

(c) Significant accounting policies

The Group applies the same significant accounting policies that are used for the prior fiscal year’s consolidated financial statements to the Interim Financial Statements.