



**CHUGAI PHARMACEUTICAL CO., LTD.**

A member of the Roche group

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

(for the fiscal year 2015)

Name of Company: Chugai Pharmaceutical Co., Ltd. January 28, 2016  
 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 General Meeting of Shareholders: March 24, 2016  
 Date of Submission of Marketable Securities Filings: March 24, 2016  
 Date on which Dividend Payments to Commence: March 25, 2016  
 Supplementary Materials Prepared for the Financial Statements: Yes  
 Presentation Held to Explain the Financial Statements: Yes (for institutional investors, securities analysts and the media)

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

### 1. Consolidated results for the FY 2015 (January 1, 2015–December 31, 2015)

#### (1) Consolidated results

	Revenues	% change	Operating profit	% change	Profit before taxes	% change
FY ended Dec. 2015	¥498,839 million	8.2	¥86,784 million	14.4	¥87,276 million	14.6
FY ended Dec. 2014	¥461,109 million	8.8	¥75,859 million	(3.7)	¥76,164 million	(1.0)

	Net income	% change	Net income attributable to Chugai shareholders	% change	Total comprehensive income	% change
FY ended Dec. 2015	¥62,353 million	19.7	¥61,125 million	19.9	¥57,476 million	18.5
FY ended Dec. 2014	¥52,077 million	0.4	¥50,980 million	0.2	¥48,485 million	(27.4)

	Net income per share (Basic)	Net income per share (Diluted)
FY ended Dec. 2015	¥112.00	¥111.79
FY ended Dec. 2014	¥93.53	¥93.38

	Ratio of net income to equity attributable to Chugai shareholders	Ratio of profit before taxes to total assets	Ratio of operating profit to revenues
FY ended Dec. 2015	10.0%	11.4%	17.4%
FY ended Dec. 2014	8.7%	10.6%	16.5%

Notes: 1. Equity-method earnings for the year ended December 31, 2015: ¥— million, December 31, 2014: ¥— million

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

3. 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	Equity per share attributable to Chugai shareholders
As of Dec. 31, 2015	¥787,401 million	¥627,271 million	¥625,857 million	79.5%	¥1,146.17
As of Dec. 31, 2014	¥739,538 million	¥597,756 million	¥596,099 million	80.6%	¥1,092.90

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

(3) Consolidated results (cash flow)

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Balance of cash and cash equivalents
FY ended Dec. 2015	¥62,918 million	¥(45,269) million	¥(28,467) million	¥101,707 million
FY ended Dec. 2014	¥37,034 million	¥(14,351) million	¥(24,388) million	¥114,037 million

**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. 2014	—	¥22.00	—	¥26.00	¥48.00
FY ended Dec. 2015	—	¥26.00	—	¥32.00	¥58.00
FY ending Dec. 2016 (Forecast)	—	¥26.00	—	¥26.00	¥52.00

	Total dividends (annual)	Dividend payout ratio (consolidated)	Ratio of dividends to equity attributable to Chugai shareholders (consolidated)
FY ended Dec. 2014	¥26,173 million	51.3%	4.5%
FY ended Dec. 2015	¥31,664 million	51.8%	5.2%
FY ending Dec. 2016 (Forecast)		—%	

Note: Year-end dividends per share for the fiscal year ended December 31, 2015 include a special dividend of ¥6 per share.

**3. Consolidated forecasts for the FY 2016 (January 1, 2016–December 31, 2016)**

	Revenues	% change	Core operating profit	% change	Core earnings per share		Core dividend payout ratio %
FY ending Dec. 2016 (Forecast)	¥495,000 million	(0.8)	¥71,000 million	(21.7)	¥92.54	(20.5)	56.2
FY ended Dec. 2015 (Results)	¥498,839 million	8.2	¥90,693 million	17.3	¥116.42	22.5	49.8

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

2. The figures for the consolidated forecasts and actuals are calculated based on Core basis indicators established by Chugai and used on a consistent basis. Core EPS is diluted net income per share attributable to Chugai shareholders on a Core basis.

**4. Others**

(1) Changes in the state of material subsidiaries during the period (Changes in the state of specific subsidiaries 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 (twelve months)

As of Dec. 31, 2015	559,685,889	As of Dec. 31, 2014	559,685,889
As of Dec. 31, 2015	13,641,743	As of Dec. 31, 2014	14,258,437
FY ended Dec. 31, 2015	545,773,462	FY ended Dec. 31, 2014	545,055,187

Note: For an explanation of the number of shares used for computing net income per share (consolidated), please refer to "Earnings per share" on page 23 of the attached document.

Notes:

**Items related to the status of the implementation of auditing procedures**

*At the time of disclosure of these consolidated financial statements, auditing procedures were in progress for the 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 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 "Analysis concerning business performance" on pages 2-5, "Basic profit distribution principles and dividends for the fiscal year under review and the following fiscal year" on page 8, and "Management Principles and Goals" on pages 12-14 of the attached document.*

*(4) Chugai Pharmaceutical Co., Ltd. ("Chugai") is scheduled to hold a presentation of the financial statements as noted below. The materials, video, the Q&A, and other related documents for the presentation for institutional investors and securities analysts will be posted on Chugai's website immediately following the conclusion of the presentation.*

*Presentation for the media (Japanese only): January 28, 2016, Thursday (Japan time).*

*Presentation for institutional investors and securities analysts (Japanese only): January 29, 2016, Friday (Japan time).*

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# 1. Business Performance

## (1) Analysis concerning business performance

### 1) Summary of business activities in billions of yen

	Year ended December 31		
	2015	2014	% change
Core results			
<b>Revenues</b>	<b>498.8</b>	<b>461.1</b>	<b>+8.2</b>
Sales (excluding Tamiflu)	460.2	423.8	+8.6
Tamiflu sales	8.2	13.0	(36.9)
Royalties and other operating income	30.4	24.2	+25.6
Cost of sales	(238.9)	(217.0)	+10.1
<b>Gross profit</b>	<b>260.0</b>	<b>244.2</b>	<b>+6.5</b>
Marketing and distribution	(74.7)	(71.7)	+4.2
Research and development	(81.9)	(80.6)	+1.6
General and administration	(12.8)	(14.6)	(12.3)
<b>Operating profit</b>	<b>90.7</b>	<b>77.3</b>	<b>+17.3</b>
<b>Net income</b>	<b>64.9</b>	<b>53.0</b>	<b>+22.5</b>
IFRS results			
Revenues	498.8	461.1	+8.2
Operating profit	86.8	75.9	+14.4
Net income	62.4	52.1	+19.8

#### Consolidated financial highlights (IFRS results)

Revenues for the fiscal year under review were ¥498.8 billion (an increase of 8.2% year on year), operating profit for the fiscal year under review was ¥86.8 billion (an increase of 14.4% year on year), and net income for the fiscal year under review was ¥62.4 billion (an increase of 19.8% year on year). These results include non-Core items, such as amortization of intangible assets of ¥1.6 billion, impairment loss of intangible assets of ¥1.9 billion, environmental expenses of ¥0.5 billion, and other items, which are excluded from the Core results that Chugai adopts to manage recurring business activities.

#### Consolidated financial highlights (Core results)

Revenues for the fiscal year review were ¥498.8 billion (an increase of 8.2% year on year) due to the strong growth in sales and increase in royalties and other operating income.

Of revenues, sales excluding Tamiflu were ¥460.2 billion (an increase of 8.6% year on year), due to the steady growth of new products and major products. Meanwhile, royalties and other operating income were ¥30.4 billion (an increase of 25.6% year on year) due to the year-on-year increase in milestone income. As a result, gross profit amounted to ¥260.0 billion (an increase of 6.5% year on year).

Expenditures were ¥169.3 billion (an increase of 1.5% year on year). Marketing and distribution expenses were ¥74.7 billion (an increase of 4.2% year on year) due to increasing expenditures on sales activities and re-classification of expense on donations. Research and development expenses were ¥81.9 billion (an increase of 1.6% year on year), due mainly to the increase in research and development activities associated with the progress in development projects and the depreciation of the yen. General and administration expenses were ¥12.8 billion (a decrease of 12.3% year on year) due to temporary increases in expenditures associated with removal of buildings etc. in the previous fiscal year. As a result, Core operating profit was ¥90.7 billion (an increase of 17.3% year on year). Core net income was ¥64.9 billion (an increase of 22.5% year on year), due to the reduction of the tax burden ratio due mainly to the changes in the taxation system.

**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-recurring items recognized by Chugai 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 status of recurring profits both internally and externally, and as the basis for payment-by-results.

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

	Year ended December 31		% change
	2015	2014	
<b>Sales</b>	<b>468.4</b>	<b>436.9</b>	<b>+7.2</b>
<b>Domestic sales (excluding Tamiflu)</b>	<b>378.0</b>	<b>349.5</b>	<b>+8.2</b>
Oncology	215.7	188.9	+14.2
Bone and joint diseases	79.4	69.6	+14.1
Renal diseases	45.4	44.7	+1.6
Transplant, immunology, and infectious diseases	15.9	20.8	(23.6)
Others	21.7	25.6	(15.2)
<b>Tamiflu sales</b>	<b>8.2</b>	<b>13.0</b>	<b>(36.9)</b>
Ordinary use	8.2	12.9	(36.4)
Government stockpiles	0.0	0.2	(100.0)
<b>Overseas sales</b>	<b>82.2</b>	<b>74.3</b>	<b>+10.6</b>

**Domestic sales (excluding Tamiflu)**

Domestic sales excluding Tamiflu were ¥378.0 billion (an increase of 8.2% year on year).

Oncology products sales were ¥215.7 billion (an increase of 14.2% year on year). This increase was due to the steady expansion in sales of major drugs such as Perjeta (an anti-HER2 humanized monoclonal antibody, anti-cancer agent) and Avastin (an anti-VEGF humanized monoclonal antibody, anti-cancer agent). In addition, there was a contribution by the two new products launched in 2014, which are Kadcyla (an anti-HER2 antibody - tubulin polymerization inhibitor conjugate) and Alecensa (an ALK inhibitor, anti-cancer agent). Sales of Zelboraf (a BRAF inhibitor, anti-cancer agent) launched in February 2015 were ¥0.5 billion.

Bone and joint diseases products sales were ¥79.4 billion (an increase of 14.1% year on year), due to the strong sales of mainstay products such as Ediroi, a top brand in the domestic market of oral therapeutic agents for osteoporosis, Actemra (a humanized anti-IL-6 receptor monoclonal antibody) and Bonviva, a bisphosphonate antiresorptive agent.

Renal diseases products sales amounted to ¥45.4 billion (an increase of 1.6% year on year), due to the solid sales of Mircera (a long-lasting erythropoiesis-stimulating agent), offsetting a decrease in the sales of Epogin (a recombinant human erythropoietin agent) resulting from the effects of the NHI drug price revisions in April 2014.

In the area of transplant, immunology, and infectious diseases products (excluding Tamiflu), sales were ¥15.9 billion (a decrease of 23.6% year on year) due to a substantial decline in sales of Pegasys (a peginterferon- $\alpha$ -2a agent), as a result of the new triple combination therapy for chronic hepatitis C having run its course and newly launched 3<sup>rd</sup> party products.

**Tamiflu sales**

Sales of Tamiflu (an anti-influenza agent) for ordinary use were ¥8.2 billion (a decrease of 36.4% year on year), while sales to government stockpiles etc. were less than ¥0.1 billion.

**Overseas sales**

Overseas sales amounted to ¥82.2 billion (an increase of 10.6% year on year), due mainly to an increase of Actemra exports to Roche in volume and the impact of the depreciation of the yen.

**2) R&D activities**

In Japan and overseas, the Chugai Group (“the Group”) is actively engaged in prescription pharmaceutical R&D activities and is working to develop innovative products with global applications, focusing on the oncology field. In Japan, the Group has established research bases in Fuji Gotemba and Kamakura, which are collaborating to develop new pharmaceuticals, and its research facilities in Ukima are conducting industrialization research. Overseas, Chugai Pharma USA, Inc. (United States); Chugai Pharma Europe Ltd. (United Kingdom); Chugai Pharma Science (Beijing) Co., Ltd. (China); and Chugai Pharma Taiwan Ltd. (Taiwan) are engaged in clinical development and submission of applications in their respective countries. Chugai Pharmabody Research Pte. Ltd. (Singapore) and jointly controlled businesses C&C Research Laboratories (South Korea) are engaged in pharmaceutical research and development.

In the fiscal year under review, R&D expenses on a Core basis totaled ¥81.9 billion.

**3) Results under the Medium-Term Business Plan “ACCEL 15”**

Having formulated its medium-term business plan “ACCEL 15”, which covers the period from fiscal year 2012 to fiscal year 2015, the Group moved ahead with reform measures related to the following four issues in order to expeditiously realize its objective of becoming a top pharmaceutical company.

**i) Increase of marketing productivity**

Under “ACCEL 15”, the Group delivered highly specialized information making use of Avastin, Actemra, and numerous other effective drugs developed in-house or licensed-in from Roche, and has achieved sales growth significantly above the market average. As a result, the Group’s domestic MR productivity (sales per MR) has improved 22% compared to 2012, reaching the top level in the industry.

**ii) Acceleration of global development**

Alecensa, which is expected to succeed Actemra as a major global product, was licensed out to Roche, and, by the end of the previous year, had been approved and launched in the United States, and submission of application had been completed in Europe. The Group has also made steady progress in development aimed at future advances, including the initiation of the Phase III clinical trial for ACE910, a strong potential driver of future growth.

**iii) Continuous generation of innovative projects**

During “ACCEL 15”, the Group further strengthened its development pipeline with the start of clinical trials for three new products developed in-house, in addition to moving ahead with the licensing-in of innovative projects such as RG7446 (atezolizumab) from Roche.

In addition, the Group is making good use of Singapore-based Chugai Pharmabody Research Pte. Ltd., established in 2012, where approximately 20 research projects based on innovative antibody engineering technologies are steadily progressing.

**iv) Further strengthening of management infrastructure**

Pursuant to the basic agreement on the strategic alliance concluded between the Group and Roche, Chugai and Roche have agreed to the terms and conditions under which they may mutually license-in and license-out their products. In August 2014, the business arrangement regarding the terms and conditions for licensing-out of Chugai products was partly amended. As a result, the Group has created a system that enhances its functions by concentrating resources on early global development, while utilizing Roche’s development and marketing capabilities to maximize product potential in overseas markets. At the same time, the Group has prepared the foundation for carrying out development that is world-class quality and speed, through measures such as strengthening the investigational drug supply system.

The Group pressed ahead with substantial reinforcement of its base in each functional area including drug discovery, medical affairs, and safety information, while simultaneously pursuing prioritization and greater efficiency in company-wide allocation of resources with a view to further improvement in productivity.

As a result of these efforts, the Group has seen extremely favorable results. From 2012 to 2015, the final year of the medium-term business plan, the average annual growth in Core EPS (at the average constant exchange rate for 2012) was 18.3%, far above the mid-to-high single-digit range initially forecasted.

**4) Outlook for the next fiscal year****Forecast assumptions**

In preparing this performance outlook, Chugai has assumed exchange rates of ¥127/CHF, ¥134/EUR, ¥120/USD, and ¥87/SGD. Chugai has also assumed that the magnitude of the influenza epidemic will be about the same as the average since 2007, excluding the epidemic of the novel influenza in the 2009/2010 season.

**Outlook for the fiscal year****Revenues**

Our outlook for sales of Tamiflu is ¥8.6 (an increase of 4.9% year on year) billion, including orders for government stockpiles of ¥1.0 billion.

Domestic sales, excluding Tamiflu, are forecast to be ¥379.0 (an increase of 0.3% year on year) billion, remaining at the same level as the previous year. Although the impact of the NHI drug price revisions is anticipated, sales are expected to expand in the bone and joint diseases domain driven by Actemra, Ediol and Bonviva as well as in the oncology domain mainly for the products in HER2 franchise, including newly launched Kadcyla and Alecensa.

Exports to Roche are expected to rise to ¥70.5 (an increase of 11.7% year on year) billion, reflecting the expansion in sales of Actemra due to its continuing growth overseas as well as the growth in sales of Alecensa, whose export started last year, offsetting the impact of the declining export prices.

Overseas sales of other products are forecast to be ¥17.3 (a decrease of 9.4% year on year) billion, due to a decline in sales of Neutrogen owing to competition from follow-on biologics.

Royalties and other operating income is forecast to be ¥19.6 (a decrease of 35.5% year on year) billion, as nearly no revenue is estimated from upfront payments, despite increases in revenues from Roche for co-promotion and royalties of Actemra.

**Core Operating Profit / Core EPS**

Gross profit is expected to be ¥241.0 (a decrease of 7.3% year on year) billion, primarily due to a decrease in royalties and other operating income and the deterioration in the cost of sales ratio mainly owing to the NHI drug price revisions and the declining export unit price of Actemra. Total expenses are expected to amount to ¥170.0 billion (a ¥0.7 billion increase compared to the previous year), remaining at the same level as the previous year, while continuing investments in main business activities as in the previous fiscal year.

As a result, Core operating profit is forecast to be ¥71.0 (a decrease of 21.7% year on year) billion. Core EPS will be ¥92.54, a 20.5% decrease year on year.

	(Billions of yen)	
	Outlook for the year ending Dec. 2016	% change
Revenues	495.0	(0.8)
Sales excluding Tamiflu	466.8	+1.4
Core operating profit	71.0	(21.7)

**Note: Core EPS**

Core EPS is diluted net income per share attributable to shareholders of Chugai, after subtraction of non-recurring profit and loss items determined by Chugai.

*Note: Figures mentioned in (1) are rounded to the nearest ¥0.1 billion, and changes in amounts and percentages have been calculated using data denominated in ¥0.1 billion units.*



**(2) Analysis concerning financial status****1) Assets, liabilities, and net assets in billions of yen**

	December 31, 2015	December 31, 2014	% change
Movements of assets and liabilities			
Net working capital	214.6	209.4	+2.5
Long-term net operating assets	165.8	148.4	+11.7
<b>Net operating assets (NOA)</b>	<b>380.4</b>	<b>357.7</b>	<b>+6.3</b>
Net cash	235.4	229.9	+2.4
Other non-operating assets - net	11.5	10.2	+12.7
<b>Total net assets</b>	<b>627.3</b>	<b>597.8</b>	<b>+4.9</b>
Consolidated balance sheet (IFRS basis)			
Total assets	787.4	739.5	+6.5
Total liabilities	(160.1)	(141.8)	+12.9
Total net assets	627.3	597.8	+4.9

Net working capital at December 31, 2015 was ¥214.6 billion (an increase of ¥5.2 billion since December 31, 2014). This was because the increase in inventories associated with the depreciation of the yen and the difference in the timing of import outweighed the decrease in accounts receivable-trade and the increase in accounts payable-trade related to raw materials imported from Roche. Long-term net operating assets increased by ¥17.4 billion since the end of the previous fiscal year to ¥165.8 billion, due mainly to the increase in construction in progress, equipment and intangible assets. As a result, net operating assets (NOA) were ¥380.4 billion, ¥22.7 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, increased by ¥5.5 billion since December 31, 2014 to ¥235.4 billion. In addition, other non-operating assets - net increased by ¥1.3 billion since the end of the previous fiscal year to ¥11.5 billion mainly due to the decrease in current income tax liabilities offsetting the increase in foreign exchange contracts liabilities.

As a consequence, total net assets were ¥627.3 billion (an increase of ¥29.5 billion since December 31, 2014).

**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 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”.

**2) Cash flows** in billions of yen

	Year ended December 31		
	2015	2014	% change
Movements of free cash flows			
Operating profit - IFRS basis	86.8	75.9	+14.4
Operating profit, net of operating cash adjustments	105.4	96.4	+9.3
Operating free cash flows	64.6	43.9	+47.2
Free cash flows	7.6	(6.5)	—
Net change in net cash	5.5	(4.5)	—
Consolidated statement of cash flows (IFRS basis)			
Cash flows from operating activities	62.9	37.0	+70.0
Cash flows from investing activities	(45.3)	(14.4)	+214.6
Cash flows from financing activities	(28.5)	(24.4)	+16.8
Net change in cash and cash equivalents	(12.3)	(1.0)	12.3 times
Cash and cash equivalents at December 31	101.7	114.0	(10.8)

Operating profit, net of operating cash adjustments, amounted to ¥105.4 billion. This is 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. The principal items influencing this result were a total of ¥14.0 billion in depreciation of property, plant and equipment.

Operating free cash flows, which are calculated by deducting an increase in net working capital of ¥15.9 billion and subtracting expenditures of ¥24.8 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 ¥64.6 billion. Factors accounting for the increase 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 buildings and equipment of the laboratories and plants.

Free cash flows were a net cash inflow of ¥7.6 billion. This is calculated by subtracting a total of ¥57.0 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, was an increase of ¥5.5 billion in comparison with the end 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 of ¥12.3 billion. The cash and cash equivalents balance at the end of this period amounted to ¥101.7 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”.

*Note: Figures mentioned in 1) and 2) of (2) are rounded to the nearest ¥0.1 billion, and changes in amounts and percentages have been calculated using data denominated in ¥0.1 billion units.*

**3) Cash flow related materials**

	Year ended December 31			
	2015	2014	2013	2012
Ratio of equity attributable to Chugai shareholders (%)	79.5	80.6	82.0	81.8
Ratio of equity attributable to Chugai shareholders on a market basis (%)	294.0	218.6	181.7	139.2
Interest-bearing debt to cash flows ratio (%)	1.2	0.6	0.4	0.3
Interest-coverage ratio (times)	8,582.4	6,547.7	4,989.9	8,430.3

Ratio of equity attributable to Chugai shareholders: Equity attributable to Chugai shareholders / Total assets  
Ratio of equity attributable to Chugai shareholders on a market basis: Total market capitalization / Total assets  
Interest-bearing debt to cash flows ratio: Interest-bearing debt / Cash flows  
Interest-coverage ratio: Cash flows / Interest payments

*Notes:*

1. All of the figures in the aforementioned indices were calculated on a consolidated basis.
2. Total market capitalization was calculated by multiplying the closing stock price at the end of the term by the total number of outstanding shares at the end of the term (excluding treasury stock).
3. Cash flows were shown as an operating cash flow in the consolidated statement of cash flows.
4. Interest-bearing debt refers to all debt posted in the consolidated balance sheet upon which interest is paid.
5. Interest paid in the consolidated statement of cash flows was used as interest payment in the calculations above.

**(3) Basic profit distribution principles and dividends for the fiscal year under review and the following fiscal year**

Regarding income distribution, taking into account the strategic funding needs and earnings prospects, Chugai aims for a consolidated dividend payout ratio of 50% on average in comparison with Core EPS to provide a stable allocation of profit to all shareholders. In addition, internal reserves will be used to increase corporate value through investments to attain further growth in existing strategic domains and to identify future business opportunities.

The result of the fiscal year under review, which is the final year of the medium-term business plan “ACCEL 15”, Core EPS increased by 11.5% compared to the forecast announced at the start of the period. At the same time, in comparison to the quantitative guidance of “ACCEL 15” — “achieving average annual growth in Core EPS (at the average constant exchange rate for 2012) at a mid-to-high single-digit range”, the group achieved a result of 18.3% far above the goal.

Reflecting the extraordinary result, year-end regular dividends for the fiscal year ended December 31, 2015 are planned to be ¥32 per share, which is higher by 6 yen as special dividends than forecast. As a result, total dividends for the fiscal year under review will be ¥58 per share, and the Core dividend payout ratio will be 49.8% (an average of 50.3% for the past five years).

For the following fiscal year, ending December 31, 2016, Chugai expects total estimated dividends of ¥52 per share, including interim dividend payments of ¥26 per share which is also based on the dividends policy of Chugai. Accordingly, the forecast for the Core dividend payout ratio is 56.2% (an average of 49.9% for the past five years) in 2016.

	Decided amount	The latest forecast (Released on January 28, 2015)	Actual of previous year (FY ended Dec. 2014)
Record date	December 31, 2015	December 31, 2015	December 31, 2014
Dividend per share	¥32.00	¥26.00	¥26.00
Total dividends	¥17,473 million	-	¥14,181 million
Effective date	March 25, 2016	-	March 27, 2015
Source of dividends	Retained earnings	-	Retained earnings

**(4) Business risks**

The Group's corporate performance is subject to major impact from a range of possible future events. Listed below are what are considered to be the Group's principal sources of risk for the development of its business. The Group recognizes the possibility of these risk events actually occurring and has prepared policies to forestall such risks and take appropriate measures when they do occur.

The future risks identified in this section are based on assessments made by Chugai as of the end of the consolidated fiscal year under review.

**1) New product research and development**

With the goal of becoming a top Japanese pharmaceutical enterprise capable of continuously delivering innovative new medicines, the Group aggressively pursues R&D in Japan and overseas. The Group has an enriched number of development pipelines, especially in the field of oncology. However, bringing all of these drugs smoothly through to the market from the R&D stages may not be possible, and the Group expects to have to abandon development in some cases. When such a situation occurs, there is a possibility of a major impact on the Group's business performance and financial position, depending on the product under development.

**2) Changes in product environments**

In recent years, there have been rapid technological advancements in the pharmaceutical industry, and the Group faces fierce competition from pharmaceutical companies in Japan and overseas. The Group's business performance and financial position may be significantly affected by changes in product environments caused by the sale of competing products and generic products and also by changes in contracts concluded by the Group for marketing agreements or the licensing of technologies.

**3) Side effects**

Medical products are approved by regulatory authorities in each country after stringent screening. However, when drugs go into general usage, even if thorough safety measures are implemented, it is difficult to fully prevent side effects due to its distinctive nature. When the Group's pharmaceuticals go into use and side effects, particularly new and serious ones, are discovered, there is a risk of significant impact on the Group's business performance and financial position.

**4) Reform of Japan's medical insurance system**

Japan's medical insurance system is being reformed against a backdrop of rapid demographic change, with a falling birthrate and increasing numbers of aged citizens. As part of this process, measures are being taken to curb medical expenses. Revisions have been made to the system of reimbursement of medical fees, and debate is continuing in such areas as the NHI drug price revision. Pressure to reduce drug costs is increasing overseas as well, primarily in developed countries. Future developments of such measures to curtail drug costs in these countries could have a major impact on the Group's business performance and financial position.

**5) Intellectual property (IP) rights**

The Group recognizes that it applies intellectual property rights in pursuing its business activities and takes care to distinguish its own proprietary intellectual property rights and licensing arrangements recognized under law. However, the possibility remains that the Group may infringe on third-party intellectual property rights without being aware of this fact. Major disputes related to intellectual property rights relating to the Group's business could have a major impact on the Group's business performance and financial position.

**6) Strategic alliance with Roche**

In line with its strategic alliance with Roche, the Group is the only pharmaceutical partner of Roche in the Japanese market, and it has granted Roche the right of first refusal with respect to Chugai's products in global markets outside Japan, excluding South Korea and Taiwan. Consequently, the Group has licensed-in and out-licensed numerous products and projects from and to Roche. In the event that the Group's strategic alliance with Roche is changed for some reason, such circumstances could have a major impact on the Group's business performance and financial position.

**7) International business activities**

The Group engages aggressively in international business activities, including sales of pharmaceuticals and R&D activities overseas as well as exporting and importing of bulk pharmaceuticals. In these international business activities, the Group may confront changes in laws and regulations, political instability, uncertainties regarding economic trends, issues related to relationships with labor in local markets, changes in tax systems and diversity in interpretation of such systems, fluctuations in foreign currency rates, differences in business practices, and other risks. Such circumstances and the occurrence of compliance issues associated with these risks could have a major impact on the Group's business performance and financial position.

**8) IT security and information control**

As the Group makes full use of a wide range of IT systems in its business activities, it is subject to the risk of its operations being disrupted due to system malfunctions, computer viruses and other external factors. Additionally, the Group's business performance and financial position may be significantly affected in the event of an accident or other incidents resulting in the leakage of confidential information.

**9) Effects of major disasters and other contingencies**

In the event of natural disasters, such as earthquakes and typhoon, as well as accidents, such as fires and other contingencies, the Group's business sites and marketing locations as well as those of its business partners may suffer serious damage and operations may become stagnant. In addition, major expenditures may have to be made to repair equipment and other assets that suffer damage. Such circumstances could have a major impact on the Group's business performance and financial position.

**10) Litigation**

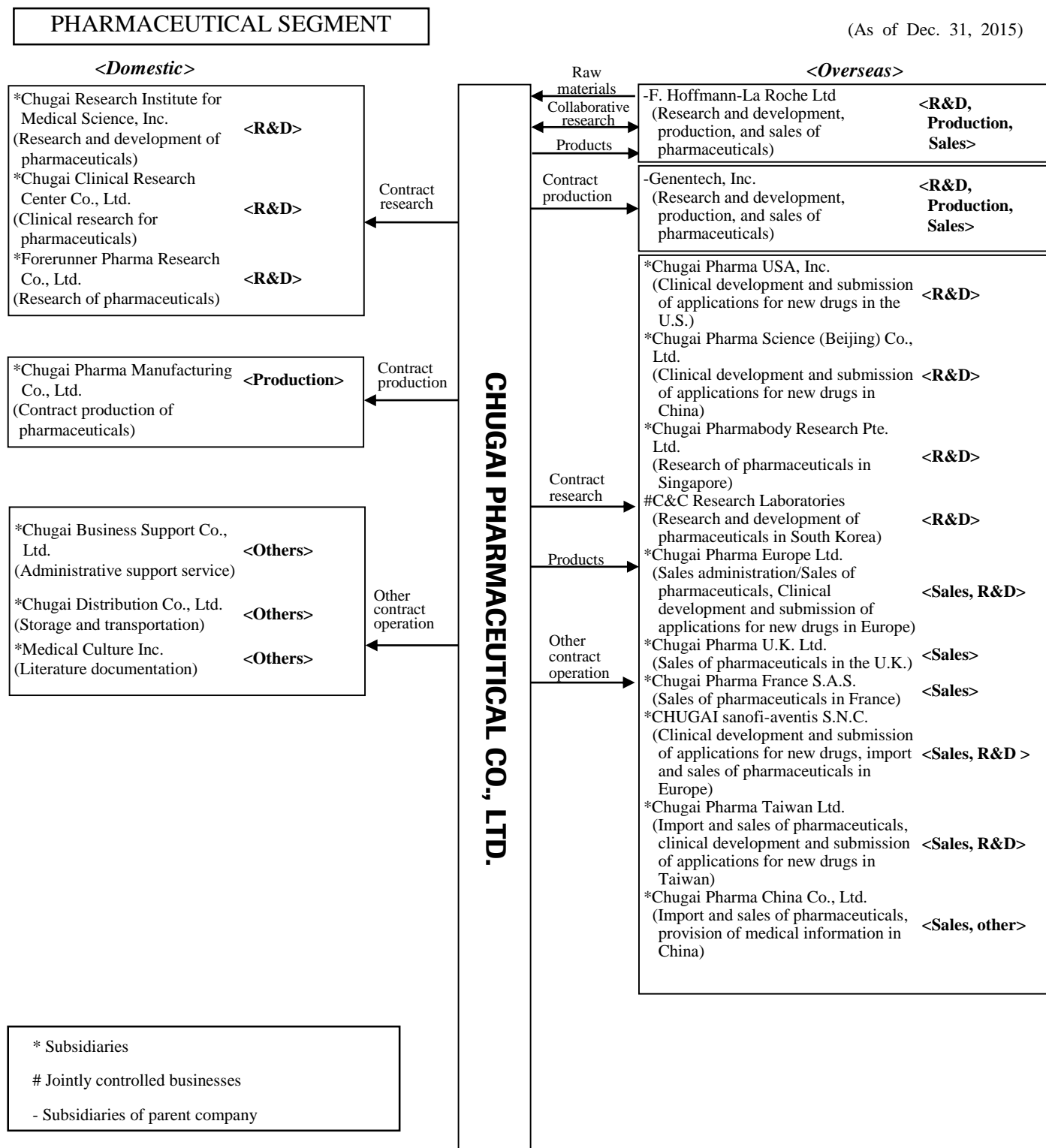
There is a possibility that litigation may be brought against the Group over side effects of pharmaceuticals, product liability, labor issues, fair trade and other issues associated with its business activities, which could have a major impact on the Group's business performance and financial position.

**11) Environmental issues**

In terms of environmental issues, the Group, in addition to compliance with relevant laws and regulations, has established a set of even higher voluntary standards and has been making efforts to achieve them. In the course of the Group's business activities, violations of relevant laws and regulations may occur as a result of accidents or other incidents, which may result in incurring related expenses. Such circumstances could have a major impact on the Group's business performance and financial position.

## 2. Outline of the Chugai Group

The Group consists of the company submitting the consolidated financial statements, 18 subsidiaries, one jointly controlled business, and two subsidiaries of the parent company. The major businesses conducted by the Group and how companies in the Group are positioned in relation to those businesses are summarized in the diagram below.



- There is no subsidiary listed on a stock exchange.
- During the fiscal year under review, the former Chugai Pharma Marketing Ltd. changed its trade name to Chugai Pharma Europe Ltd. after receiving business transfer from the former Chugai Pharma Europe Ltd. In addition, the former Chugai Pharma Europe Ltd. changed its trade name to Chugai Pharma Development Ltd.
- Chugai Pharma (Shanghai) Consulting Co., Ltd. and Chugai Pharma Development Ltd. have not been included in the Outline of the Chugai Group above as they are suspending their activities at present.
- We have omitted disclosure about the status of subsidiaries and jointly controlled businesses since there have not been any material changes

### 3. Management Principles and Goals

#### (1) Basic management principles

In line with its strategic alliance with the world-leading pharmaceutical company Roche, the Group has established “dedicating itself to creating new values through the provision of innovative medical products and services for the benefit of the medical community and human health around the world” as its mission and “becoming a top Japanese pharmaceutical company which provides a continuous flow of innovative new medicines domestically and internationally” as its fundamental management objective.

As the Group works to achieve these goals, it will carry out its business activities in line with its core values of “the primary focus of all our activities is patients and consumers” and “committing to the highest ethical and moral standards” as befits a corporate group involved in the healthcare industry.

Under these basic management principles, the Group is making continuous efforts to pursue innovation in line with the philosophy “Innovation all for the patients”. In addition, by progressively enhancing business efficiency, the Group is aiming to meet the expectations of patients, medical care professionals, shareholders, and other stakeholders and realize its objective of becoming a top pharmaceutical company.

#### (2) Medium-to-long-term business strategy and tasks

Amid increasing needs for pharmaceuticals due to an increase in the world population and progressive demographic graying in each country, how to realize sustainable medical care with limited resources has become a common issue in the world. While the dramatic progress of life sciences and ICT has expanded opportunities to generate innovation for solving medical issues, competition among companies to rapidly realize innovation has intensified more than ever. In addition, amid mounting pressure to curb drug costs against the backdrop of financial difficulties in each country, extremely harsh measures to suppress prices are expected to be adopted especially in the Japanese market.

Through its previous medium-term business plan “ACCEL 15”, the Group has achieved top-class growth in Japan and expansion of top share of the domestic oncology market based on numerous innovative new medicines. As for R&D activities, the Group has also achieved numerous results such as building a strong development pipeline by means of leading-edge in-house drug discovery capabilities, such as antibody engineering technologies, and a wealth of development compounds from Roche. In late-stage development, there are numerous new leading drug candidates such as ACE910 (expected indication: hemophilia A) discovered in-house and RG7446 (atezolizumab, immune checkpoint inhibitor) under the development of multiple cancers, licensed-in from Roche, which are bringing opportunities for great progress as the growth driver. On the other hand, during the next several years until the contribution of new growth driver products become full swing, sales growth is expected to slow down than before due to substantial drug price reductions for existing major products.

Amid such a mixture of opportunities and threats, the Group formulated its new medium-term business plan “IBI 18”, which covers the period from fiscal year 2016 through fiscal year 2018, and commenced new initiatives to aim to transform into a company that continues making progress globally through demonstration of its competitive strengths by leveraging its strategic alliance with Roche. The name of the new medium-term business plan “IBI 18” reflects our commitment to thoroughly pursue innovation captured in the slogan “Innovation Beyond Imagination” toward 2018, the final year of the plan.

The Group will focus on issues in the following fields in line with “IBI 18”, based on the two priority themes of “acquisition and implementation of competitiveness at a top global level” and “selection and concentration strategy for acceleration of growth”.

##### 1) Drug discovery

The Group has moved ahead with the generation of innovative drugs in both biopharmaceuticals and small molecule drugs. Efforts in the biopharmaceutical field have been successful, leading to the world’s most advanced results with respect to the establishment of antibody engineering technologies such as recycling antibody and sweeping antibody technologies. Regarding small molecule drugs also, the Group has successfully supplemented its own accumulated technologies with Roche’s compound library to achieve a dramatic strengthening of its drug discovery base.

The Group’s drug discovery capabilities have been highly evaluated worldwide, with three drugs generated by Chugai being designated as Breakthrough Therapy by the United States Food and Drug Administration (FDA).

Under “IBI 18”, the Group will make priority investment in the world’s leading-edge antibody engineering technologies to further accelerate the generation of innovative R&D projects. In addition, the Group will select technologies for middle molecules as the candidate for next-generation core technology following small molecule and antibody engineering, and aim at the establishment of technologies through concentrated investment and early generation of R&D projects. Furthermore, through cooperation with academic institutions and collaboration with Roche in the molecular information field, the Group will work to strengthen its research foundation with emphasis on oncology and immunology.

Going forward, the Group will be leveraging these innovative drug discovery technologies and drug discovery research systems to seek to continuously generate first-in-class and best-in-class pharmaceutical products.

## **2) Development**

The Group holds a development pipeline well-stocked with items generated by its own research units as well as items obtained from Roche. The Group has concentrated its own global development resources in the early development stage by utilizing the unique business model resulting from the strategic alliance with Roche, and moved ahead with efficient activities linked to global clinical development trials in domestic development, leading to achievement of a high level of R&D productivity.

Under “IBI 18”, the Group will give top priority to allocating resources to development and promotion of medical plans for ACE910 and RG7446 (atezolizumab), which are expected to play a key role in dramatic growth in the future with a view to obtaining approval early and building evidence. In addition, regarding global development projects comprising numerous products generated in-house, the Group will press ahead with early development with global top-class quality and speed under the promotion system for Translational Clinical Research (TCR) centered on three regions, namely Japan, the United States and Europe.

In order to promptly push ahead with global late-stage development of Chugai’s drug discovery and development projects and market penetration in cooperation with Roche, where the Group licenses out products, or a third party, it is extremely vital to prove that Chugai’s projects are attractive and show great potential both medically and economically by the completion phase of early development. To this end, the Group will also make efforts to strengthen the systems for generating and accumulating evidence through collaboration under a strategy for which the functions are integrated from the drug discovery stage.

## **3) Pharmaceutical Technology**

The Group has advanced manufacturing technologies such as biopharmaceuticals and stably supplies highly reliable pharmaceuticals. Going forward, the promotion of global simultaneous development of multiple products and accelerated market launches of numerous Chugai creations and R&D projects and the further enhancement of cost competitiveness are critical challenges.

Under “IBI 18”, the Group will move ahead with setting up a flexible system for facilities and staff that supplies investigational drugs in a timely manner for promptly carrying out global simultaneous development of multiple products. At the same time, the Group will work to further strengthen manufacturing technologies for R&D projects with a high degree of difficulty in formulation such as middle molecule drugs.

In addition, in order to realize high-value-added, low-cost manufacturing, the Group will promptly set up a production system that takes an integrated approach to the processes from late-stage development to early-stage production, and enhance quality control, quality assurance and regulatory functions that accurately respond to the trends of major global markets.

## **4) Sales, medical affairs and safety**

Amid the major challenge of providing sustainable medical care, the medical care provision environment has started to change significantly for the realization of optimal patient-centered medical care.

By effectively making the most of Avastin, Actemra, and numerous other promising new products developed in-house or licensed-in from Roche, the Group has been building solid presences in the markets it entered for drugs in the oncology, renal disease, bone and joint disease, rheumatic diseases as well as other fields.

Going forward, it will be a critical challenge to further strengthen the system for providing solutions to meet the sophisticated and diversified needs of patients, medical care professionals, and other stakeholders while utilizing such foundation.

Under “IBI 18”, the Group will move ahead with providing sophisticated information and resolving medical issues through



the division and collaboration of functions centered on marketing, medical affairs and safety by conducting activities focused on growth driver products such as Actemra, ACE910 and RG7446 (atezolizumab) in Japan and overseas. By doing so, the Group will aim to contribute to the realization of optimal medical care and accelerate its growth.

At the same time, the Group will work to establish a system for building and executing strategies by cross-functional teams for each area in order to push ahead with the provision of solutions according to the various characteristics of each country and region.

#### **5) Global top-level talent**

In dealing with the challenges mentioned so far, human resources that drive innovation while responding to a rapidly changing environment would be extremely important.

Under “IBI 18”, the Group will focus on human resources as the most important theme for strengthening the foundation throughout the Company and move ahead with selecting focus positions to be reinforced in order to accelerate innovation as well as obtaining, nurturing and assigning the right position filled by the right person.

In addition, the Group will continue to work on ensuring thorough compliance based on the highest ethical and moral standards as befits a corporate group involved in the healthcare industry and pursuing improvement of productivity.

By means of these initiatives, the Group is seeking to increase the value it provides to shareholders and all other stakeholders as it proceeds towards its objective of becoming a top pharmaceutical company.

During the period from 2015 through 2018, the final year of the medium-term business plan, the Group expects to achieve an average annual growth in its Core EPS (assuming at the average constant exchange rate of 2015) at a low single-digit rate (up to 3% range).

For further details on Core EPS, please refer to “Outlook for the next fiscal year” under (1) Analysis concerning business performance on page 5.

## **4. Basic Approach to the Selection of Accounting Standards**

The Group has applied International Financial Reporting Standards (IFRS) from the first quarter of the fiscal year ended December 31, 2013.

## 5. Consolidated Financial Statements

### (1) Consolidated income statement and consolidated statement of comprehensive income

#### 1) Consolidated income statement in millions of yen

	Year ended December 31	
	2015	2014
<b>Revenues</b>	<b>498,839</b>	<b>461,109</b>
Sales	468,427	436,883
Royalties and other operating income	30,413	24,226
Cost of sales	(240,238)	(218,076)
<b>Gross profit</b>	<b>258,601</b>	<b>243,033</b>
Marketing and distribution	(74,811)	(71,742)
Research and development	(83,799)	(80,800)
General and administration	(13,207)	(14,632)
<b>Operating profit</b>	<b>86,784</b>	<b>75,859</b>
Financing costs	(67)	(11)
Other financial income (expense)	559	315
<b>Profit before taxes</b>	<b>87,276</b>	<b>76,164</b>
Income taxes	(24,923)	(24,087)
<b>Net income</b>	<b>62,353</b>	<b>52,077</b>
Attributable to:		
Chugai shareholders	61,125	50,980
Non-controlling interests	1,228	1,097
Earnings per share		
Basic (yen)	112.00	93.53
Diluted (yen)	111.79	93.38

**2) Consolidated statement of comprehensive income** in millions of yen

	Year ended December 31	
	2015	2014
<b>Net income recognized in income statement</b>	<b>62,353</b>	<b>52,077</b>
Other comprehensive income		
Remeasurements of defined benefit plans	(1,519)	(1,452)
<b>Items that will not be reclassified to the income statement</b>	<b>(1,519)</b>	<b>(1,452)</b>
Available-for-sale investments	1,844	1,050
Cash flow hedges	(1,741)	(4,052)
Currency translation of foreign operations	(3,461)	862
<b>Items that may be reclassified subsequently to the income statement</b>	<b>(3,358)</b>	<b>(2,140)</b>
<b>Other comprehensive income, net of tax</b>	<b>(4,877)</b>	<b>(3,592)</b>
<b>Total comprehensive income</b>	<b>57,476</b>	<b>48,485</b>
Attributable to:		
Chugai shareholders	56,380	47,379
Non-controlling interests	1,096	1,107

**(2) Consolidated balance sheet** in millions of yen

	December 31, 2015	December 31, 2014
<b>Assets</b>		
Non-current assets:		
Property, plant and equipment	153,545	140,245
Intangible assets	13,511	11,286
Financial non-current assets	13,715	10,755
Deferred tax assets	26,025	25,673
Defined benefit plan assets	-	1,946
Other non-current assets	12,832	10,728
<b>Total non-current assets</b>	<b>219,628</b>	<b>200,635</b>
Current assets:		
Inventories	161,135	139,571
Accounts receivable	158,668	159,773
Current income tax assets	49	114
Marketable securities	134,419	116,030
Cash and cash equivalents	101,707	114,037
Other current assets	11,796	9,379
<b>Total current assets</b>	<b>567,773</b>	<b>538,904</b>
<b>Total assets</b>	<b>787,401</b>	<b>739,538</b>
<b>Liabilities</b>		
Non-current liabilities:		
Long-term debt	(604)	(185)
Deferred tax liabilities	(10,028)	(10,722)
Defined benefit plan liabilities	(2,358)	(2,616)
Long-term provisions	(1,974)	(2,110)
Other non-current liabilities	(12,108)	(11,799)
<b>Total non-current liabilities</b>	<b>(27,071)</b>	<b>(27,432)</b>
Current liabilities:		
Short-term debt	(131)	(29)
Current income tax liabilities	(13,133)	(16,619)
Short-term provisions	(180)	(987)
Accounts payable	(78,353)	(62,694)
Other current liabilities	(41,260)	(34,021)
<b>Total current liabilities</b>	<b>(133,058)</b>	<b>(114,350)</b>
<b>Total liabilities</b>	<b>(160,130)</b>	<b>(141,782)</b>
<b>Total net assets</b>	<b>627,271</b>	<b>597,756</b>
<b>Equity:</b>		
Capital and reserves attributable to Chugai shareholders	625,857	596,099
Equity attributable to non-controlling interests	1,414	1,657
<b>Total equity</b>	<b>627,271</b>	<b>597,756</b>

**(3) Consolidated statement of cash flows** in millions of yen

	Year ended December 31	
	2015	2014
Cash flows from operating activities		
Cash generated from operations	110,159	99,050
(Increase) decrease in working capital	(15,945)	(33,302)
Payments made for defined benefit plans	(3,883)	(2,254)
Utilization of provisions	(510)	(122)
Other operating cash flows	2,239	(1,115)
<b>Cash flows from operating activities, before income taxes paid</b>	<b>92,059</b>	<b>62,256</b>
Income taxes paid	(29,141)	(25,222)
<b>Total cash flows from operating activities</b>	<b>62,918</b>	<b>37,034</b>
Cash flows from investing activities		
Purchase of property, plant and equipment	(18,367)	(16,232)
Purchase of intangible assets	(6,472)	(2,935)
Disposal of property, plant and equipment	(424)	794
Interest and dividends received	355	490
Purchases of marketable securities	(241,432)	(228,292)
Sales of marketable securities	221,679	231,873
Other investing cash flows	(607)	(49)
<b>Total cash flows from investing activities</b>	<b>(45,269)</b>	<b>(14,351)</b>
Cash flows from financing activities		
Interest paid	(7)	(6)
Dividends paid to Chugai shareholders	(28,375)	(24,520)
Dividends paid to non-controlling shareholders	(1,064)	(962)
Exercise of equity compensation plans	1,391	1,226
(Increase) decrease in own equity instruments	15	(19)
Other financing cash flows	(425)	(109)
<b>Total cash flows from financing activities</b>	<b>(28,467)</b>	<b>(24,388)</b>
Net effect of currency translation on cash and cash equivalents	(1,513)	673
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(12,331)</b>	<b>(1,032)</b>
Cash and cash equivalents at January 1	114,037	115,070
<b>Cash and cash equivalents at December 31</b>	<b>101,707</b>	<b>114,037</b>

**(4) Consolidated statement of changes in equity** in millions of yen

	Attributable to Chugai shareholders					Non-controlling interests	Total equity
	Share capital	Capital surplus	Retained earnings	Other reserves	Subtotal		
<b>Year ended December 31, 2014</b>							
<b>At January 1, 2014</b>	<b>72,967</b>	<b>59,268</b>	<b>432,713</b>	<b>6,744</b>	<b>571,692</b>	<b>1,512</b>	<b>573,204</b>
Net income	-	-	50,980	-	50,980	1,097	52,077
Available-for-sale investments	-	-	-	1,050	1,050	-	1,050
Cash flow hedges	-	-	-	(4,052)	(4,052)	-	(4,052)
Currency translation of foreign operations	-	-	-	851	851	10	862
Remeasurements of defined benefit plans	-	-	(1,451)	-	(1,451)	(1)	(1,452)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>49,529</b>	<b>(2,150)</b>	<b>47,379</b>	<b>1,107</b>	<b>48,485</b>
Dividends	-	-	(24,521)	-	(24,521)	(962)	(25,483)
Equity compensation plans	-	(73)	-	-	(73)	-	(73)
Own equity instruments	-	1,623	-	-	1,623	-	1,623
<b>At December 31, 2014</b>	<b>72,967</b>	<b>60,817</b>	<b>457,720</b>	<b>4,594</b>	<b>596,099</b>	<b>1,657</b>	<b>597,756</b>
<b>Year ended December 31, 2015</b>							
<b>At January 1, 2015</b>	<b>72,967</b>	<b>60,817</b>	<b>457,720</b>	<b>4,594</b>	<b>596,099</b>	<b>1,657</b>	<b>597,756</b>
Net income	-	-	61,125	-	61,125	1,228	62,353
Available-for-sale investments	-	-	-	1,844	1,844	-	1,844
Cash flow hedges	-	-	-	(1,741)	(1,741)	-	(1,741)
Currency translation of foreign operations	-	-	-	(3,329)	(3,329)	(132)	(3,461)
Remeasurements of defined benefit plans	-	-	(1,519)	-	(1,519)	-	(1,519)
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>59,605</b>	<b>(3,225)</b>	<b>56,380</b>	<b>1,096</b>	<b>57,476</b>
Dividends	-	-	(28,372)	-	(28,372)	(1,064)	(29,436)
Equity compensation plans	-	(44)	-	-	(44)	-	(44)
Own equity instruments	-	1,801	-	-	1,801	-	1,801
Changes in non-controlling interests	-	(8)	-	-	(8)	(275)	(283)
<b>At December 31, 2015</b>	<b>72,967</b>	<b>62,567</b>	<b>488,954</b>	<b>1,369</b>	<b>625,857</b>	<b>1,414</b>	<b>627,271</b>

**(5) Notes regarding the going concern assumption**

None

**(6) Notes regarding the consolidated financial statements****1. General accounting principles and significant accounting policies****(a) Basis of preparation of the consolidated financial statements**

These financial statements are the annual consolidated financial statements (“Consolidated Financial Statements”) of Chugai, a company registered in Japan, and its subsidiaries (“the Group”). The common stock of Chugai is publicly traded and listed on the Tokyo Stock Exchange under the stock code “TSE: 4519”. The Consolidated Financial Statements were approved by the Board of Directors on January 28, 2016.

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 International Financial Reporting Standards (“IFRS”). The shareholding percentage of Roche Holding Ltd. in Chugai is 59.89% (61.39% of the total number of shares issued excluding treasury stock). The Group 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, “the Regulation”). Hence, in accordance with Article 93 of the Regulation, the Consolidated Financial Statements have been prepared in accordance with IFRS.

The Consolidated 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) Changes in accounting policies**

The accounting policies applied by the Group for its Consolidated Financial Statements for the fiscal year under review are the same as for the previous fiscal year.

There were minor changes in some of the standards. However, they do not materially impact the Group’s performance or financial status.

**(c) Future new and revised standards**

The Group is currently assessing the potential impacts of new standards and interpretations that will be effective from January 1, 2016 and beyond. Based on the analysis to date, the Group does not anticipate that these will have a material impact on the Group’s overall results and financial position.

By the date of approval of the Consolidated Financial Statements, the following new and revised standard has been issued by the International Accounting Standards Board (IASB) and has not yet been implemented by the Group.

	IFRS	Mandatory adoption (from the year beginning)	To be adopted by the Group	Description of new and revised standards
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	To be determined	Revision of accounting relating to revenue recognition
IFRS 9	Financial Instruments	January 1, 2018	To be determined	Classification, measurement, recognition of financial instruments and revision of hedge accounting
IFRS 16	Leases	January 1, 2019	To be determined	Revision of accounting relating to recognition of leases

**2. Operating segment information**

The Group has a single business of pharmaceuticals and does not have multiple operating segments. The Group's pharmaceuticals business consists of research and development of new prescription medicines and subsequent manufacturing, marketing and distribution activities. These functional activities are integrated and managed effectively.

**Information on revenues by geographical area** in millions of yen

	2015		2014	
	Sales	Royalties and other operating income	Sales	Royalties and other operating income
Japan	386,241	3,770	362,574	10,300
Overseas	82,185	26,643	74,309	13,926
of which Switzerland	63,084	26,555	55,051	13,884
<b>Total</b>	<b>468,427</b>	<b>30,413</b>	<b>436,883</b>	<b>24,226</b>

**Information by major customers** in millions of yen

	2015		2014	
	Revenues	Percentage (%)	Revenues	Percentage (%)
Alfresa Corporation	100,181	20.1	94,483	20.5
F. Hoffmann-La Roche Ltd	89,639	18.0	68,784	14.9
Mediceo Corporation	78,489	15.7	72,767	15.8
Suzuken Co., Ltd.	49,457	9.9	47,658	10.3



**3. Financing costs and other financial income (expense)****Financing costs** in millions of yen

	2015	2014
Interest expense	(7)	(6)
Net interest cost of defined benefit plans	8	63
Net other financing costs	(68)	(68)
<b>Total financing costs</b>	<b>(67)</b>	<b>(11)</b>

**Other financial income (expense)** in millions of yen

	2015	2014
Dividend income	208	287
Gains on sale of equity securities	2	-
Losses on sale of equity securities	-	-
Write-downs and impairments of equity securities	(64)	(0)
<b>Net income from equity securities</b>	<b>146</b>	<b>287</b>
Interest income	148	205
Gains on sale of debt securities	-	-
Losses on sale of debt securities	-	-
<b>Net interest income and income from debt securities</b>	<b>148</b>	<b>205</b>
Foreign exchange gains (losses)	(585)	(672)
Gains (losses) on foreign currency derivatives	849	495
<b>Net foreign exchange gains (losses)</b>	<b>265</b>	<b>(177)</b>
<b>Total other financial income (expense)</b>	<b>559</b>	<b>315</b>

**4. Earnings per share****Basic earnings per share**

	2015	2014
Net income attributable to Chugai shareholders (millions of yen)	<b>61,125</b>	<b>50,980</b>
Weighted average number of common stock	559,685,889	559,685,889
Weighted average number of treasury stock	(13,912,427)	(14,630,702)
<b>Weighted average number of shares in issue</b>	<b>545,773,462</b>	<b>545,055,187</b>
<b>Basic earnings per share (yen)</b>	<b>112.00</b>	<b>93.53</b>

**Diluted earnings per share**

	2015	2014
Net income attributable to Chugai shareholders (millions of yen)	<b>61,125</b>	<b>50,980</b>
Weighted average number of shares in issue	545,773,462	545,055,187
Adjustment for assumed exercise of equity compensation plans, where dilutive	1,028,628	892,848
<b>Weighted average number of shares in issue used to calculate diluted earnings per share</b>	<b>546,802,090</b>	<b>545,948,035</b>
<b>Diluted earnings per share (yen)</b>	<b>111.79</b>	<b>93.38</b>

As of December 31, 2015, 2,814 stock options (5,941 stock options as of December 31, 2014) were eliminated from the weighted average number of shares in issue used to calculate diluted earnings per share since they do not have dilutive effects.

**5. Statement of cash flows****Cash flows from operating activities**

Cash flows from operating activities arise from the Group's primary activities including research and development, manufacturing and sales in the Pharmaceuticals business. These are calculated by the indirect method by adjusting the Group's operating profit for any operating income and expenses that are not cash flows (for example depreciation, amortization and impairment) in order to derive the cash generated from operations. Operating cash flows also include income taxes paid on all activities.

**Cash generated from operations** in millions of yen

	2015	2014
Net income	62,353	52,077
Financing costs	67	11
Other financial income (expense)	(559)	(315)
Income taxes	24,923	24,087
<b>Operating profit</b>	<b>86,784</b>	<b>75,859</b>
Depreciation of property, plant and equipment	13,964	13,688
Amortization of intangible assets	1,603	1,192
Impairment of property, plant and equipment	202	1,775
Impairment of intangible assets	1,852	171
Operating expense for defined benefit plans	3,806	3,316
Operating expense for equity-settled equity compensation plans	387	342
Net (income) expense for provisions	436	99
Inventory write-downs	1,481	1,182
Other adjustments	(358)	1,426
<b>Cash generated from operations</b>	<b>110,159</b>	<b>99,050</b>

**Cash flows from investing activities**

Cash flows from investing activities are principally those arising from the Group's investments in property, plant and equipment and intangible assets. Cash flows connected with the Group's portfolio of marketable securities and other investments are also included, as are any interest and dividend payments received in respect of these securities and investments.

**Interest and dividends received** in millions of yen

	2015	2014
Interest received	147	203
Dividends received	208	287
<b>Total</b>	<b>355</b>	<b>490</b>

**Cash flows from financing activities**

Cash flows from financing activities are primarily dividend payments to Chugai shareholders.

**Significant non-cash transactions**

There were no significant non-cash transactions (2014: none).

## 6. Related parties

### (a) Controlling shareholder

Effective October 1, 2002, Roche and Chugai concluded an alliance to create a leading research-driven Japanese pharmaceutical company, which was formed by the merger of Chugai and Roche's Japanese pharmaceuticals subsidiary, Nippon Roche. Through the merger, Chugai became a principal member of the Roche Group as the surviving company.

Chugai has entered into certain agreements with Roche, which are discussed below:

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

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

Chugai may issue additional shares of common stock in connection with its convertible debt and equity compensation plans, and for other purposes, which affects Roche's percentage ownership interest. The Basic Alliance Agreement provides, amongst other matters, that Chugai will guarantee Roche's right to maintain its shareholding percentage in Chugai at not less than 50.1%.

**Licensing Agreements:** Under the Japan Umbrella Rights Agreement signed in December 2001, Chugai has exclusive rights to market Roche's pharmaceutical products in Japan. Chugai also has right of first refusal on the development and marketing in Japan of all development compounds held by Roche.

The Rest of the World Umbrella Rights Agreement (excluding Japan and South Korea) signed in May 2002 was revised and the Amended and Restated Rest of the World Umbrella Rights Agreement (excluding Japan, South Korea and Taiwan) was signed in August 2014. Under this Agreement, Roche has the right of first refusal on the development and marketing of Chugai's development compounds in markets outside Japan, excluding South Korea and Taiwan.

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

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

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

**Research Collaboration Agreements:** Roche and Chugai have entered into research collaboration agreements in the areas of small-molecule synthetic drug research and biotechnology-based drug discovery.

**Dividends:** The dividends distributed to Roche by Chugai in respect to its holdings of Chugai shares totaled ¥17,432 million (2014: ¥15,085 million).

**(b) Material transactions and balances with related parties**  
**Transactions with F. Hoffmann-La Roche** in millions of yen

	2015	2014
Sales	63,084	55,051
Purchases of inventory and other materials	131,025	122,189

**Balances with F. Hoffmann-La Roche** in millions of yen

	December 31, 2015	December 31, 2014
Accounts receivable	32,489	28,201
Accounts payable	(43,560)	(37,447)

**(c) Key management personnel**

The operating functions of Chugai are retained by the members of the Board of Directors who act as the chief operating decision-maker. The term of office for directors expires at the conclusion of the annual general meeting of shareholders held with respect to the last business year ending within two years after election. The term of office for audit & supervisory board members expires at the conclusion of the annual general meeting of shareholders held with respect to the last business year ending within four years after election.

**Remuneration of members of the board and audit & supervisory board members** in millions of yen

	2015	2014
Board of directors		
- Regular remuneration	355	349
- Bonuses	238	220
- Chugai common stock options	117	104
- Chugai stock options as stock-based compensation	115	117
<b>Total</b>	<b>825</b>	<b>790</b>
Audit & supervisory board members		
- Regular remuneration	85	85
<b>Total</b>	<b>85</b>	<b>85</b>

**7. Subsequent events**

There were no material subsequent events (2014: none).