

[**Translation:** Please note that the following purports to be a translation from the Japanese original Notice of Convocation of the 105th Annual General Meeting of Shareholders for the business term ended December 31, 2015 of Chugai Pharmaceutical Co., Ltd. prepared for the convenience of shareholders outside Japan with voting rights. However, in the case of any discrepancy between the translation and the Japanese original, the latter shall prevail.]

**ITEMS DISCLOSED ON INTERNET
CONCERNING NOTICE OF CONVOCATION
OF THE 105th ANNUAL GENERAL MEETING OF SHAREHOLDERS
FOR THE BUSINESS TERM ENDED DECEMBER 31, 2015**

**Consolidated statement of changes in equity
Notes to the consolidated financial statements
Non-consolidated statement of changes in shareholders' equity
Notes to the non-consolidated financial statements**

The following items have been provided to our shareholders by posting the same on our website in accordance with the related legislation and Article 15 of the Articles of Incorporation of the Company.

- Consolidated statement of changes in equity
- Notes to the consolidated financial statements
- Non-consolidated statement of changes in shareholders' equity
- Notes to the non-consolidated financial statements

CHUGAI PHARMACEUTICAL CO., LTD. website:
<http://www.chugai-pharm.co.jp/hc/ir>

CHUGAI PHARMACEUTICAL CO., LTD.

Consolidated statement of changes in equity (IFRS)

(January 1, 2015 to December 31, 2015)

(Millions of yen)

Item	Attributable to Chugai Shareholders					Non-controlling interests	Total equity
	Share capital	Capital surplus	Retained earnings	Other reserves	Subtotal		
At January 1, 2015	72,967	60,817	457,720	4,594	596,099	1,657	597,756
Net income recognized in income statement	-	-	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)
Total comprehensive income	-	-	59,605	(3,225)	56,380	1,096	57,476
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)
At December 31, 2015	72,967	62,567	488,954	1,369	625,857	1,414	627,271

Notes to the consolidated financial statements

General accounting principles and significant accounting policies

1. Preparation of the consolidated financial statements

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) pursuant to Article 120, Paragraph 1 of Ordinance of Companies’ Accounting (the “Ordinance”). Certain parts of the required disclosure under IFRS are omitted based on the provision of the latter part of the said paragraph of the Ordinance.

2. Scope of consolidation

Number of consolidated subsidiaries: 18 companies.

Names of major subsidiaries: Chugai Pharma Europe Ltd., and Chugai Pharma Manufacturing Co., Ltd.

During the consolidated fiscal year under review, as a result of a business transfer from former Chugai Pharma Europe Co., Ltd., former Chugai Pharma Marketing Co., Ltd. has changed its name into Chugai Pharma Europe Co., Ltd. And at the same time the name of former Chugai Pharma Europe Co., Ltd. has been changed into Chugai Pharma Development Co., Ltd.

3. Application of equity method

Number of non-consolidated subsidiaries and affiliates accounted for by the equity method: None

4. Treatment for differences in fiscal period

The closing date of all subsidiaries is in agreement with the Chugai Group’s (the “Group’s”) closing date.

5. Significant accounting policies

(1) Basis and method for valuation of financial instruments

(a) Financial instruments

Financial instruments are classified into the following categories:

Available-for-sale. These are non-derivative financial assets that are either designated as such or are not classified in any other financial asset category. Available-for-sale financial assets are initially recorded and subsequently carried at fair value. Changes in fair value are recorded in other comprehensive income, except for impairments, interest and foreign exchange components. When an investment is derecognized the cumulative gains and losses in equity are reclassified to other financial income (expense). Available-for-sale assets are mainly comprised of marketable securities and most of financial non-current assets.

Fair value – hedging instruments. These are derivative financial instruments that are used to manage the exposures to foreign currency risk. Derivative financial instruments are initially recorded and subsequently carried at fair value. Apart from those derivatives designated as qualifying cash flow hedging instruments, all changes in fair value are recorded as other financial income (expense).

Fair value – designated. These are non-derivative financial instruments that are designated as fair value through profit or loss on initial recognition. Designated fair value instruments are initially recorded and subsequently carried at fair value. Changes in fair value are recorded in the income statement. Designated fair value instruments mainly comprise of financial assets held for trading.

Loans and receivables. These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recorded at fair value and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses. Loans and receivables are mainly comprised of accounts receivable, cash and cash equivalents and a part of financial non-current assets.

Other financial liabilities. These are non-derivative financial liabilities. Other financial liabilities are initially recorded at fair value and subsequently carried at amortized cost using the effective interest rate method. Other financial liabilities are mainly comprised of accounts payable and debt.

(b) Derecognition of financial instruments

A financial asset is derecognized when the contractual cash flows from the asset expire or when the Group transfers the rights to receive the contractual cash flows from the financial assets in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. A financial liability is derecognized when the contractual obligations are discharged, cancelled or expire.

(c) Impairment of financial assets

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

For financial assets carried at amortized cost, any impairment charge is the difference between the carrying value and the recoverable amount, calculated using estimated future cash flows discounted using the original effective interest rate. For available-for-sale financial assets, any impairment charge is the amount currently carried in other comprehensive income for the difference between the original cost, net of any previous impairment, and the fair value.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For equity securities held as available-for-sale, the reversal is recognized directly in other comprehensive income. For debt securities measured at amortized cost or available-for-sale, the reversal is recognized in other financial income (expense).

(2) Basis and method for valuation of derivatives

The Group uses derivatives to manage its exposures to foreign currency risk. The instruments used may include forwards contracts and options. The Group generally limits the use of hedge accounting to certain significant transactions. To qualify for hedge accounting the hedging relationship must meet several strict conditions on documentation, probability of occurrence, hedge effectiveness and reliability of measurement. While many of these transactions can be considered as hedges in economic terms, if the required conditions are not met, then the relationship does not qualify for hedge accounting. In this case the hedging instrument and the hedged item are reported independently as if there were no hedging relationship, which means that any derivatives are reported at fair value, with changes in fair value included in other financial income (expense).

Cash flow hedge. Is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. The hedging instrument is recorded at fair value. The effective portion of the hedge is included in other comprehensive income and any ineffective portion is reported in other financial income (expense). If the hedging relationship is the hedge of the foreign currency risk of a firm commitment or highly probable forecasted transaction that results in the recognition of a non-financial item, the cumulative changes in the fair value of the hedging instrument that have been recorded in other comprehensive income are included in the initial carrying value of the non-financial item at the date of recognition. For all other cash flow hedges, the cumulative changes in the fair value of the hedging instrument that have been recorded in other comprehensive income are included in other financial income (expense) when the forecasted transaction affects net income.

Fair value hedge. Is a hedge of the exposure to changes in fair value of a recognized asset or liability, or an unrecognized firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. The hedging instrument is recorded at fair value and the hedged item is recorded at its previous carrying value, adjusted for any changes in fair value that are attributable to the hedged risk. Changes in the fair values are reported in other financial income (expense).

(3) Basis and method for valuation of inventories

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

(4) Basis and method for valuation of property, plant and equipment and intangible assets

(a) Property, plant and equipment

Property, plant and equipment are initially recorded at cost of purchase or construction, and include all costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. These include items such as costs of site preparation, installation and assembly costs and professional fees. The net costs of testing whether the asset is functioning properly, including validation costs, are also included in the initially recorded cost of construction. Property, plant and equipment are depreciated on a straight-line basis, except for land, which is not depreciated. The estimated useful lives of major classes of depreciable assets are as follows:

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

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

(b) Intangible assets

Purchased patents, licenses, trademarks and other intangible assets are initially recorded at cost. Assets that have been acquired through a business combination are initially recorded at fair value. Once available for use, intangible assets are amortized on a straight-line basis over their useful lives. The estimated useful life is the lower of the legal duration and the economic useful life. The estimated useful lives of intangible assets are regularly reviewed. Estimated useful lives of major classes of amortizable intangible assets are as follows:

Product intangibles in use	5-16 years
Marketing intangibles in use	2-5 years
Technology intangibles in use	3-8 years

(c) Impairment of property, plant and equipment and intangible assets

An impairment assessment is carried out at each reporting date when there is evidence that an item of property, plant and equipment or intangible asset in use may be impaired. In addition intangible assets that are not yet available for use are tested for impairment annually. When the recoverable amount of an asset, being the higher of its fair value less costs to sell and its value in use, is less than its carrying value, then the carrying value is reduced to its recoverable amount. This reduction is reported in the income statement as an impairment loss. Value in use is calculated using estimated cash flows. These are discounted using an appropriate long-term interest rate. When an impairment loss arises, the useful life of the asset is reviewed and, if necessary, the future depreciation/amortization charge is accelerated. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through the income statement as an impairment reversal.

(5) Basis of recording significant provisions

Provisions are recognized where a legal or constructive obligation has been incurred which will probably lead to an outflow of resources that can be reliably estimated. In particular, restructuring provisions are recognized when the Group has a detailed formal plan that has either commenced implementation or has been announced. Provisions are recorded for the estimated ultimate liability that is expected to arise and are discounted when the time value of money is material.

(6) Accounting for post-employment benefits

For defined contribution plans, the Group contributions are recognized within the operating results when the employee has rendered the associated service.

For defined benefit plans the liability or asset recognized in the balance sheet is net amount of the present value of the defined benefit obligation and the fair value of the plan assets. All changes in the net defined benefit liability (asset) are recognized as they occur as follows:

Recognized in the income statement:

- Current service costs are charged to the appropriate income statement heading within the operating results.
- Past service costs, including curtailment gains or losses, are recognized immediately in general and administration within the operating results.
- Settlement gains or losses are recognized in general and administration within the operating results.
- Net interest on the net defined benefit liability (asset) is recognized in financing costs.

Recognized in other comprehensive income:

- Actuarial gains and losses arising from experience adjustments (the difference between previous assumptions and what has actually occurred) and changes in actuarial assumptions.
- The return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset).

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

Pension assets and liabilities in different defined benefit plans are not offset unless the Group has a legally enforceable right to use the surplus in one plan to settle obligations in the other plan.

(7) Foreign currency translation

Most foreign subsidiaries of the Group use their local currency as their functional currency. Certain foreign subsidiaries use other currencies (such as the euro) as their functional currency where this is the currency of the primary economic environment in which the entity operates. Local transactions in other currencies are initially reported using the exchange rate at the date of the transaction. Gains and losses from the settlement of such transactions and gains and losses on translation of monetary assets and liabilities denominated in other currencies are included in income, except when they are qualifying cash flow hedges. In such cases the gains and losses are deferred into other comprehensive income.

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

(8) Accounting for consumption taxes

Income and expenses for the Group are recorded net of consumption taxes.

(9) Stated amounts

In the accompanying consolidated financial statements, amounts are rounded to the nearest 1 million yen.

Notes to the consolidated balance sheet

1. Accumulated depreciation and impairment of property, plant and equipment ¥ 154,253 million

2. Commitment line contract

Chugai maintains commitment line contracts with nine financial institutions in order to allow the efficient procurement of working capital. The balances of the commitments and loans as of the balance sheet date were as follows:

Total commitments	¥ 40,000 million
<u>Commitments used</u>	<u>—</u>
Commitments unused	¥ 40,000 million

Notes to the consolidated statement of changes in equity

1. Type and number of outstanding shares as of December 31, 2015

Common stock 559,685,889 shares

Type and number of treasury stock as of December 31, 2015

Common stock 13,641,743 shares

2. Dividends paid to shareholders during the current fiscal year

Approval	Type of shares	Amount (Millions of yen)	Per share (yen)	Date of record	Effective date
March 26, 2015 Annual General Meeting of Shareholders	Common stock	14,181	26	December 31, 2014	March 27, 2015
July 23, 2015 Meeting of the Board of Directors	Common stock	14,190	26	June 30, 2015	September 1, 2015

3. Dividends for which record date is within current fiscal year but which will be effective after current fiscal year

Expected approval	Type of shares	Amount (Millions of yen)	Type of distribution	Per share (yen)	Date of record	Effective date
March 24, 2016 Annual General Meeting of Shareholders	Common stock	17,473	Retained earnings	32	December 31, 2015	March 25, 2016

4. Number of shares to be issued or transferred upon the exercise of stock acquisition rights (stock acquisition rights that are exercisable) at the end of the current fiscal year

Stock acquisition rights

	Fourth stock acquisition rights (stock options)	Fifth stock acquisition rights (stock options)	Sixth stock acquisition rights (stock options)	2009 stock acquisition rights (Stock options as stock-based compensation)	Seventh stock acquisition rights (stock options)	2010 stock acquisition rights (Stock options as stock-based compensation)
Date of approval for issuance	March 23, 2006	March 23, 2007	March 25, 2009	April 24, 2009	April 23, 2010	April 23, 2010
Type of shares to be issued upon the exercise of the stock acquisition rights	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock
Number of shares to be issued upon the exercise of the stock acquisition rights (shares)	67,900	153,400	100,700	51,900	116,200	57,900

	Eighth stock acquisition rights (stock options)	2011 stock acquisition rights (Stock options as stock-based compensation)	Ninth stock acquisition rights (stock options)	2012 stock acquisition rights (Stock options as stock-based compensation)	Tenth stock acquisition rights (stock options)	2013 stock acquisition rights (Stock options as stock-based compensation)
Date of approval for issuance	May 27, 2011	May 27, 2011	April 24, 2012	April 24, 2012	April 25, 2013	April 25, 2013
Type of shares to be issued upon the exercise of the stock acquisition rights	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock
Number of shares to be issued upon the exercise of the stock acquisition rights (shares)	117,100	67,200	221,400	72,300	201,700	45,700

	Eleventh stock acquisition rights (stock options) (Note)	2014 stock acquisition rights (Stock options as stock-based compensation)	Twelfth stock acquisition rights (stock options) (Note)	2015 stock acquisition rights (Stock options as stock-based compensation)
Date of approval for issuance	April 24, 2014	April 24, 2014	April 22, 2015	April 22, 2015
Type of shares to be issued upon the exercise of the stock acquisition rights	Common stock	Common stock	Common stock	Common stock
Number of shares to be issued upon the exercise of the stock acquisition rights (shares)	310,000	46,100	281,400	31,300

(Note) Chugai has entered into stock acquisition rights allocation contracts with the holders of the warrants, under which the holders can not exercise their stock acquisition rights during the first two years after the date of approval for issuance regardless of the exercise period, even though the exercise period has commenced.

Notes to financial instruments

1. Status of financial instruments held by the Group

The Group is exposed to various financial risks arising from its underlying operations and corporate finance activities. The Group's financial risk exposures are predominantly related to changes in foreign exchange rates, interest rates and equity prices as well as the creditworthiness and the solvency of the Group's counterparties.

Financial risk management within the Group is governed by policies reviewed by the board of directors of Chugai. These policies cover credit risk, liquidity risk and market risk. The policies provide guidance on risk limits, type of authorized financial instruments and monitoring procedures. The policies prohibit the use of derivative financial instruments for speculative trading purposes. Policy implementation and day-to-day risk management are carried out by the relevant functions and regular reporting on these risks is performed by the relevant finance & accounting and controlling functions within Chugai.

(1) Credit risk

Accounts receivable are exposed to customer credit risk. The main accounts receivable are trade receivables. The management of trade receivables is focused on the assessment of country risk, setting of credit limits, ongoing credit evaluation and account monitoring procedures. As part of the credit risk management, sales administration departments regularly monitor the financial position of major customers by checking payment term and balances of trade receivables for each customer according to the accounting manuals to ensure early identification and mitigation of overdue balances and potential bad debts associated with the deterioration of customers' financial position.

The objective of the management of trade receivables is to sustain the growth and profitability of the Group by optimizing asset utilization while maintaining risks at an acceptable level. The Group obtains credit insurance and similar enhancements when appropriate to protect the collection of trade receivables.

(2) Liquidity risk

Liquidity risk arises through a surplus of financial obligations over available financial assets due at any point in time. The Group's approach to liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Group manages liquidity risks based on a cash management plan prepared and updated as appropriate by finance and accounting departments based on the reporting from each department.

(3) Market risk

Market risk arises from changing market prices, mainly due to foreign exchange rates and interest rates, of the Group's financial assets or financial liabilities which affect the Group's net income and equity.

Foreign exchange risk: Accounts receivable and accounts payable denominated in foreign currencies are exposed to foreign exchange risk. The objective of the Group's foreign exchange risk management activities is to preserve the economic value of its current and future assets and to minimize the volatility of the Group's financial result. The Group enters into derivative transactions such as foreign exchange forward contracts and currency options to reduce the risk of foreign currency exchange fluctuations related to assets and liabilities dominated in foreign currencies. Some of these transactions qualify as cash flow hedges at the point a forecast transaction is expected.

When making use of derivatives for hedging foreign exchange risk on assets and liabilities dominated in foreign currencies, Chugai conducts such operations in accordance with its internal regulations and monthly reports are prepared on the balance of such transactions, valuation gains and losses, and other related matters at fair value. Consolidated subsidiaries do not utilize derivative transactions.

Interest rate risk: The amounts of debt and loans were insignificant and therefore the Group is not exposed to material interest rate risk.

2. Fair values of financial instruments

The Group's financial instruments are mainly comprised of financial non-current assets, accounts receivable, marketable securities, cash and cash equivalents, derivative financial instruments included in other current assets, accounts payable, derivative financial instruments included in other current liabilities and debt. The carrying values of these financial instruments are equal to or reasonable approximates of fair values.

Notes to the per share information

1. Equity per share attributable to Chugai shareholders	¥1,146.17
2. Basic earnings per share	¥112.00

Non-consolidated statement of changes in shareholders' equity (JGAAP)

(January 1, 2015 to December 31, 2015)

(Millions of yen)

	Shareholders' equity								
	Capital stock	Capital surplus		Retained earnings					Total Retained earnings
		Legal capital surplus	Total Capital surplus	Legal retained earnings	Other retained earnings				
					Reserve for advanced depreciation of non-current assets	General reserve	Retained earnings carried forward		
Balance as of the beginning of the year	72,967	92,815	92,815	6,480	703	149,220	220,390	376,793	
Cumulative effects of changes in accounting policies							2,640	2,640	
Restated balance as of the beginning of the year	72,967	92,815	92,815	6,480	703	149,220	223,029	379,432	
Changes during the period									
Reversal of reserve for advanced depreciation of non-current assets					(13)		13	—	
Adjustment to reserve due to change in tax rate					34		(34)	—	
Dividends paid							(28,372)	(28,372)	
Net income							56,207	56,207	
Purchase of own equity instruments									
Disposal of own equity instruments							247	247	
Net changes except for shareholders' equity									
Net changes during the period	—	—	—	—	21	—	28,062	28,083	
Balance as of the end of the year	72,967	92,815	92,815	6,480	724	149,220	251,091	407,515	

	Shareholders' equity		Valuation and translation adjustments			Stock acquisition rights	Total net assets
	Own equity instruments, at cost	Total shareholders' equity	Net unrealized gains or losses on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance as of the beginning of the year	(33,370)	509,205	3,936	111	4,047	1,455	514,707
Cumulative effects of changes in accounting policies		2,640					2,640
Restated balance as of the beginning of the year	(33,370)	511,845	3,936	111	4,047	1,455	517,346
Changes during the period							
Reversal of reserve for advanced depreciation of non-current assets		—					—
Adjustment to reserve due to change in tax rate		—					—
Dividends paid		(28,372)					(28,372)
Net income		56,207					56,207
Purchase of own equity instruments	(21)	(21)					(21)
Disposal of own equity instruments	1,456	1,703					1,703
Net changes except for shareholders' equity			1,852	(1,741)	111	75	186
Net changes during the period	1,435	29,518	1,852	(1,741)	111	75	29,704
Balance as of the end of the year	(31,935)	541,363	5,787	(1,630)	4,158	1,530	547,051

Notes to the non-consolidated financial statements

Significant Accounting Policies

1. Basis and method for valuation of securities
 - Held-to-maturity securities Held-to-maturity securities are stated by the amortized cost method (straight-line method).
 - Investments in subsidiaries and affiliates Investments in subsidiaries and affiliates are stated at cost determined by the moving average method.
 - Available-for-sale securities
 - Securities with market value Securities with market value are stated at fair value at the closing date for the fiscal year, and changes in fair value are recorded as a separate component of net assets at an amount net of tax, and the moving average method is used to calculate the cost.
 - Securities without market value Securities without market value are stated at cost determined by the moving average method.
2. Basis and method for valuation of derivatives Derivatives are revalued by the market value method.
3. Basis and method for valuation of inventories
 - Inventories held for regular sale Inventories held for regular sale are stated at cost determined principally by the average method. (The value indicated in the non-consolidated balance sheets includes write-down due to decline in profitability.)
4. Accounting for deferred assets Stock issuance cost is accounted for as the full amount at the time of the expenditure.
5. Basis and method for valuation of non-current assets
 - Property, plant and equipment (excluding leased assets) Depreciation of property, plant and equipment is calculated primarily by the declining-balance method.
 - Intangible assets (excluding leased assets) Amortization of intangible assets is calculated primarily by the straight-line method. Amortization of software for internal use is calculated based on its useful life (five years).
 - Leased assets Lease assets are depreciated or amortized using the straight-line method over the lease term which corresponds to the useful life with no residual value. For finance lease transactions for which ownership is not transferred to the lessee, and for which the lease period began on or before December 31, 2008, the previous accounting standards are applied and the accounting treatment follows the method applicable to ordinary operating lease transactions.
6. Accounting for provisions
 - Allowance for doubtful accounts In order to prepare for losses of bad receivables such as accounts receivable-trade or loans and for revaluation losses on financial instruments, except valuation losses on securities, an allowance for doubtful accounts is provided for based on the estimate uncollectable amount of based on the historical percentage of credit losses for general credits, and is provided for at an amount that is estimated individually considering the possibilities of collection for doubtful receivables that are highly possible to loss and the possibilities of future loss on financial instruments.

Provision for bonuses to employees	The provision for bonuses to employees is provided at the estimated amount of the liability for bonuses incurred for the fiscal year.
Provision for bonuses to directors	The provision for bonuses to directors is provided at the estimated amount of the liability for bonuses incurred for the fiscal year.
Provision for sales rebates	The provision for such rebates is computed based on the estimated amounts considering contract terms and sales amounts.
Provision for environmental matters	The provision for environmental matters is recorded based on the estimated amount of expenditure for environmental measures as of the balance sheet date.
Provision for decommissioning and removal	The provision for decommissioning and removal is recorded based on the estimated amount as of balance sheet date of expenditure for decommissioning and removal with respect to property, plant and equipment to be decommissioned and removed in future periods.
Provision for employees' retirement benefits	<p>The provision for employees' retirement benefits is stated at the amount required to cover the liabilities as of the balance sheet date and is based on defined benefit obligation.</p> <p>Prior service cost is amortized by the declining-balance method over 10 years, which is shorter than the average remaining years of service of the eligible employees as incurred.</p> <p>Actuarial gains and losses are amortized by the declining-balance method over 10 years, which is shorter than the average period of the remaining years of service of the eligible employees and are amortized from the following year in which the gain or loss is recognized.</p>
Provision for directors' retirement benefits	While Chugai abolished the Directors' retirement benefits system, Chugai recorded an amount corresponding to the period the Directors spent in office prior to the abolition of the system.
7. Hedge accounting methods	
Hedge accounting method	Deferred hedge accounting is adopted.
Hedging instruments and hedged items	
Hedging instruments	Forward exchange contracts
Hedged items	Forecast transactions denominated in foreign currencies and assets and liabilities denominated in foreign currencies
Hedging policy	Hedging transactions in respect of foreign currency denominated transactions are carried out under the Internal Management Rules for the purpose of hedging the cash flows fluctuation risk associated with foreign exchange fluctuations.
Methods for evaluating hedge effectiveness	Hedge effectiveness is evaluated by comparing the cumulative market fluctuations of the hedged items and hedging instruments and determined based on their fluctuation amounts for the period from the start of hedging to the time of evaluation of effectiveness.
8. Accounting for retirement benefits	Chugai's accounting policies for unrecognized actuarial

gains and losses, and unrecognized past service costs are different from what used in the Group's consolidated financial statements.

9. Accounting for consumption tax
Income and expenses are recorded at net of consumption taxes.
10. Stated amounts
In the accompanying non-consolidated financial statements, amounts are rounded to the nearest 1 million yen.

Changes in accounting policies

1. Adoption of the accounting policies for retirement benefits

From this fiscal year, Chugai has adopted the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, issued on May 17, 2012) and the "Revised Implementation Guidance on Accounting Standard for Retirement Benefits" (the revised Guidance No. 25, issued on March 26, 2015). As a result of this adoption, the calculation method of retirement benefit obligations and current service costs has been reviewed, and the method of attributing the expected benefit to periods has been changed from mainly a point-based or straight-line method to a benefit formula basis. Furthermore, the calculation method of the discount rate has also been changed from discount rate based on the numbers of years nearest to the employees' average service period to single weighed average discount rate method with reference to the expected payment period and amount.

The adoption of the accounting standards is subject to the transition treatment set forth in Clause 37 of the "Accounting Standard for Retirement Benefits", and the effects of the change in the accounting standard for the calculation method of retirement benefit obligations and current service costs are adjusted on the beginning balance of the "Retained earnings carried forward".

Consequently, the beginning balance of the "Prepaid pension expense" increased by 1,667 million yen, the "Provision for employees' retirement benefits" decreased by 2,434 million yen, while the "Retained earnings carried forward" increased by 2,640 million yen. Furthermore, the impacts on profit or loss and amount per share are immaterial.

Notes to the non-consolidated balance sheet

1. Accumulated depreciation of property, plant and equipment ¥101,317 million
2. Monetary receivables and payables with subsidiaries and affiliates
Short-term monetary receivables due from subsidiaries and affiliates ¥40,418 million
Short-term monetary payables due to subsidiaries and affiliates ¥11,152 million
3. Contingent liabilities
Guarantees of (housing) loans of employees ¥93 million
4. Commitment line contract
Chugai maintains commitment line contracts with nine financial institutions in order to allow the efficient procurement of working capital. The balances of commitments and loans as of the balance sheet date were as follows:

Total commitments	¥40,000 million
Commitments used	—
Commitments unused	¥40,000 million

Notes to the non-consolidated income statement

1. Components of revenues
Sales of merchandise and finished goods ¥458,563 million
Other operating income ¥31,197 million
2. Transactions with subsidiaries and affiliates
Net sales to subsidiaries and affiliates ¥5,834 million

Purchases from subsidiaries and affiliates	¥168,324 million
Supply of raw materials to subsidiaries and affiliates for a fee	¥111,913 million
Non-operating transactions with subsidiaries and affiliates	¥6,039 million

Notes to the non-consolidated statement of changes in shareholders' equity

Type and number of treasury stock as of December 31, 2015

Common stock	13,641,743 shares
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Notes to the tax effect accounting

The major components of deferred tax assets are prepaid expenses for tax purposes and supplies. The major component of deferred tax liabilities is deferred gains or losses on hedges.

The "Act for Partial Revision of the Income Tax Act" (Act No. 9 of 2015) and the "Act for Partial Revision of the Local Tax Act" was promulgated on March 31, 2015, whereby Corporation Tax for Reconstruction will be lowered from the fiscal years beginning on and after April 1, 2015. In line with this revision, the effective statutory tax rate used to calculate deferred tax assets and deferred tax liabilities has been changed from the previous rate of 35.6% to 32.9% and 32.2% respectively with respect to temporary differences expected to be eliminated in the fiscal year beginning on January 1, 2016 and January 1, 2017

As a result, the amount of deferred tax assets after the deduction of deferred tax liabilities and deferred gains or losses on hedges decreased by ¥2,892 million, ¥69 million respectively, on the other hand, income taxes – deferred, net unrealized gain on available-for-sale securities increased by ¥3,106 million, ¥283 million correspondingly.

Notes to the leased non-current assets

Other than the non-current assets recorded on the non-consolidated balance sheet, certain office equipment is leased under financial leases other than those that are deemed to transfer the ownership of the leased property.

Note to transactions with the related parties

1. Subsidiaries and affiliates

Attribute	Name of company	Rate of ownership of voting	Relationship	Transaction	Amount of transaction (*)	Account	Ending balance (*)
Subsidiary	Chugai Pharma Manufacturing Co., Ltd.	Directly owned 100.0%	Contract manufacturing of pharmaceuticals	Contract manufacturing of pharmaceuticals	139,256	Accounts payable -trade	5,414
				Supply of pharmaceutical ingredients for a fee	111,913	Accounts receivable -other	34,983
			Common directors: none	Lending of funds Collection of funds Receipt of interest	13,100 13,100 8	Short-term loans	—

(*): Millions of yen

Notes: 1. "Amount of transaction" is reported net of consumption taxes, while "Ending balance" is reported including consumption taxes.

2. Guideline for determination of business conditions

(1) Business transactions are determined upon consultation in consideration of market value.

(2) Fund transactions are reasonably determined in consideration with market interest rates.

2. Subsidiaries of parent company

Attribute	Name of company	Rate of ownership of voting	Relationship	Transaction	Amount of transaction (*)	Account	Ending balance (*)
Subsidiary of parent company	F. Hoffmann-La Roche Ltd.	—	Purchase of ingredients	Purchase of pharmaceutical ingredients	131,025	Accounts payable -trade	33,979
				Sales of pharmaceuticals	89,768	Accounts receivable -trade	26,236
			Common directors: Yes	Cost-sharing in joint developments (receivable)	7,634	Accounts receivable -other	4,155
				Cost-sharing in joint developments (payable)	7,742	Accrued expenses	7,792

(*): Millions of yen

Notes: 1. "Amount of transaction" is reported net of consumption taxes, if any.

2. Guideline for determination of business conditions

(1) Business transactions are determined by the same process as that for general transactions in consideration of market value.

(2) With regard to the cost-sharing in joint developments, conditions of the transactions are determined according to the license agreements with F. Hoffmann-La Roche Ltd. and other factors.

3. Corporate directors and major individual shareholders

Attribute	Name of company	Rate of ownership of voting	Relationship	Transaction	Amount of transaction (*)	Account	Ending balance (*)
Corporate director	Osamu Nagayama	Directly being owned 0.04%	Representative director	Exercise of stock options	436	—	—
Corporate director	Motoo Ueno	Directly being owned 0.13%	Representative director	Exercise of stock options	47	—	—
Corporate director	Tatsuro Kosaka	Directly being owned 0.00%	Representative director	Exercise of stock options	60	—	—
Corporate director	Yoshio Itaya	Directly being owned 0.00%	Board director	Exercise of stock options	12	—	—
Corporate director	Yutaka Tanaka	Directly being owned 0.00%	Board director	Exercise of stock options	35	—	—

(*): Millions of yen

Note: The above refers to the exercise status in the fiscal year under review of the stock acquisition rights issued by the resolutions at the 94th Annual General Meeting of Shareholders of Chugai held on March 23, 2005, the 95th Annual General Meeting of Shareholders of Chugai held on March 23, 2006, the Meeting of the Board of Directors of Chugai held on March 23, 2007, the Meeting of the Board of Directors of Chugai held on March 25, 2009, the Meeting of the Board of Directors of Chugai held on April 23, 2010, the Meeting of the Board of Directors of Chugai held on May 27, 2011, the Meeting of the Board of Directors of Chugai held on April 24, 2012 and the Meeting of the Board of Directors of Chugai held on April 25,

2013.

The column "Amount of transaction" refers to the amount calculated by multiplying the number of shares granted through the exercise of stock options in the fiscal year under review with the amount paid.

Notes to the per share information

1. Net assets per share	¥999.04
2. Net income per share	¥102.99