[**Translation:** Please note that the following purports to be a translation from the Japanese original Notice of Convocation of the 108th Annual General Meeting of Shareholders for the business term ended December 31, 2018 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 108th ANNUAL GENERAL MEETING OF SHAREHOLDERS FOR THE BUSINESS TERM ENDED DECEMBER 31, 2018

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

・Company's Stock Acquisition Rights, etc., Accounting Auditor and Framework to Ensure Operational Adequacy in the Business Report

・Consolidated Statement of Changes in Equity and Notes to the Consolidated Financial Statements in the Consolidated Financial Statements

・Non-Consolidated Statement of Changes in Shareholders' Equity and Notes to the Non-Consolidated Financial Statements in the Non-Consolidated Financial Statements

CHUGAI PHARMACEUTICAL CO., LTD. website:
https://www.chugai-pharm.co.jp/english/ir

Business Report

Company's Stock Acquisition Rights, etc.

(1) Stock Acquisition Rights Held by Corporate Officers (as of December 31, 2018)

a) Common Stock Option

In order to increase the Group's corporate value by enhancing the Directors' motivation and morale leading to the growth of the business results of the Company, and by securing superior human resources, the Company issues stock acquisition rights as common stock options.

Name (Issuance date)	Number of rights issued	Type and number of shares issued	Amount payable upon exercise per stock acquisition right	Period for exercise	Stock acquisition rights held by Corporate Officers	
					Directors	Audit & Supervisory Board Members
Sixth issue of stock acquisition rights (April 9, 2009)	20 units	2,000 shares of the Company's common stock	JPY169,600	From April 9, 2009 to March 25, 2019	—	—
Seventh issue of stock acquisition rights (May 11, 2010)	290 units	29,000 shares of the Company's common stock	JPY188,100	From May 11, 2010 to April 23, 2020	124 units (one person)	40 units (one person)
Eighth issue of stock acquisition rights (June 14, 2011)	213 units	21,300 shares of the Company's common stock	JPY139,700	From June 14, 2011 to May 27, 2021	75 units (one person)	—
Ninth issue of stock acquisition rights (May 10, 2012)	1,251 units	125,100 shares of the Company's common stock	JPY152,800	From May 10, 2012 to April 24, 2022	504 units (three persons)	40 units (one person)
Tenth issue of stock acquisition rights (May 13, 2013)	1,108 units	110,800 shares of the Company's common stock	JPY250,000	From May 13, 2013 to April 25, 2023	288 units (two persons)	90 units (two persons)
Eleventh issue of stock acquisition rights (May 12, 2014)	1,293 units	129,300 shares of the Company's common stock	JPY267,400	From May 12, 2014 to April 24, 2024	368 units (two persons)	90 units (two persons)
Twelfth issue of stock acquisition rights (May 11, 2015)	2,075 units	207,500 shares of the Company's common stock	JPY400,700	From May 11, 2015 to April 22, 2025	728 units (three persons)	40 units (one person)
Thirteenth issue of stock acquisition rights (May 10, 2016)	1,741 units	174,100 shares of the Company's common stock	JPY374,600	From May 10, 2016 to April 22, 2026	310 units (two persons)	40 units (one person)

(Notes)
1. The number of shares per stock acquisition right shall be 100 shares.
2. Notwithstanding the aforementioned exercise periods, the Stock Acquisition Right Granting Agreement concluded with each holder of stock acquisition rights offered as a common stock option stipulates that the stock acquisition rights are not exercisable for approximately two years from their respective issuance resolution dates.
3. These stock acquisition rights are not allotted to Non-Executive Directors and Audit & Supervisory Board Members. "Stock acquisition rights held by Corporate Officers" indicated above include stock acquisition rights allotted prior to their appointment as Director or Audit & Supervisory Board Member.

b) Stock Option as Stock-Based Compensation

Stock acquisition rights are issued in the form of stock options as stock-based compensation to the Company's Directors for the purpose of further clarifying the link between the compensation to the Company's Directors and the Company's business performance/value of its shares, and making the Company's Directors share not only the benefits of higher share prices but also the risks of lower share prices with shareholders.

Name (Issuance date)	Number of rights issued	Type and number of shares issued	Amount payable upon exercise per stock acquisition right	Period for exercise	Stock acquisition rights held by Directors
2009 issue of stock acquisition rights (May 11, 2009)	519 units	51,900 shares of the Company's common stock	JPY100	From May 11, 2009 to April 24, 2039	519 units (two persons)
2010 issue of stock acquisition rights (May 11, 2010)	579 units	57,900 shares of the Company's common stock	JPY100	From May 11, 2010 to April 23, 2040	579 units (three persons)
2011 issue of stock acquisition rights (June 14, 2011)	672 units	67,200 shares of the Company's common stock	JPY100	From June 14, 2011 to May 27, 2041	672 units (three persons)
2012 issue of stock acquisition rights (May 10, 2012)	659 units	65,900 shares of the Company's common stock	JPY100	From May 10, 2012 to April 24, 2042	659 units (three persons)
2013 issue of stock acquisition rights (May 13, 2013)	414 units	41,400 shares of the Company's common stock	JPY100	From May 13, 2013 to April 25, 2043	414 units (three persons)
2014 issue of stock acquisition rights (May 12, 2014)	383 units	38,300 shares of the Company's common stock	JPY100	From May 12, 2014 to April 24, 2044	383 units (three persons)
2015 issue of stock acquisition rights (May 11, 2015)	261 units	26,100 shares of the Company's common stock	JPY100	From May 11, 2015 to April 22, 2045	261 units (three persons)
2016 issue of stock acquisition rights (May 10, 2016)	296 units	29,600 shares of the Company's common stock	JPY100	From May 10, 2016 to April 22, 2046	296 units (three persons)

(Notes) 1. The number of shares per stock acquisition right shall be 100 shares.
2. The Stock Acquisition Right Granting Agreement concluded with each holder of stock acquisition rights offered as a stock option as stock-based compensation stipulates that the stock acquisition rights are exercisable only within ten days counting from the day immediately following the day he/she loses the position of Director in the Company.
3. These stock acquisition rights are not allotted to Non-Executive Directors and Audit & Supervisory Board Members.

(2) Overview of Stock Acquisition Rights Issued to Company's Employees and Others during the Fiscal Year under Review, etc.

There is no applicable information.

(3) Other Important Matters on Stock Acquisition Rights, etc.

There is no applicable information.

Accounting Auditor

(1) Name of Accounting Auditor

KPMG AZSA LLC

(2) Amount of Fees, etc. Paid to Accounting Auditor

Category	Previous fiscal year		Fiscal year under review	
	Amount of fees paid for audit and attestation services (JPY millions)	Amount of fees paid for non-audit services (JPY millions)	Amount of fees paid for audit and attestation services (JPY millions)	Amount of fees paid for non-audit services (JPY millions)
The Company	121	—	122	—
Consolidated Subsidiaries	15	—	15	—
Total	136	—	137	—

(Notes) 1. Based on the “Operational Guideline for Company Auditors Concerning the Assessment and Election Standard Formulation of Accounting Auditors” released by the Japan Audit & Supervisory Board Members Association, the Audit & Supervisory Board has verified and examined the contents of audit plans created by the Accounting Auditor, execution of duties of accounting audit, and calculation basis for fee estimates. As a result, the Audit & Supervisory Board agreed to the fees, etc. paid to the Accounting Auditor based on Article 399, Paragraph 1 of the Companies Act.

2. The amount of auditing fees is neither distinguished nor effectively distinguishable under the auditing agreement concluded between the Company and the Accounting Auditor with respect to audits under the Companies Act, audits under the Financial Instruments and Exchange Act and audits of financial statements reported by the Company as a consolidated subsidiary to the parent company. Therefore, the amount in “Amount of fees paid for audit and attestation services” above represents the sum of the fees for such audits.

3. Among the Company’s principal subsidiaries, Chugai Pharma Europe Ltd. is subject to audits by an accounting corporation of the KPMG network, to which the Company’s Accounting Auditor also belongs.

(3) Policy for Determining Dismissal or Non-reappointment of Accounting Auditor

The Audit & Supervisory Board shall propose to the general meeting of shareholders, as the objective of such meeting, dismissing or not reappointing the Accounting Auditor, in cases where it is deemed difficult to have audits conducted properly if circumstances that undermine the Accounting Auditor’s aptitude and independence have arisen.

Also, if any of the provisions of the subparagraphs of Article 340, Paragraph 1 of the Companies Act are deemed to apply to the Accounting Auditor, the Audit & Supervisory Board shall dismiss the Accounting Auditor with the unanimous consent of all the Audit & Supervisory Board Members.

Framework to Ensure Operational Adequacy

(1) Overview of Contents of Resolutions on Framework to Ensure Operational Adequacy

The Group is pursuing transparent, fair and highly ethical corporate activities aimed at realizing the mission "to dedicate itself to adding exceptional value through the creation of innovative medical products and services for the benefit of the medical community and human health around the world." Moreover, in accordance with the provisions of the Companies Act, the Board of Directors has passed resolutions on basic policies concerning internal controls as follows, and we have built a robust framework to ensure the operational adequacy of the Group.

Partial amendments have been made at the meeting of the Board of Directors held on January 23, 2019 and the following is the framework after the amendments.

a) System for ensuring compliance of business operations executed by directors and employees with laws and articles of incorporation
- Directors and employees comply with "Chugai Business Conduct Guidelines (Chugai BCG)."
- The Company sets Corporate Social Responsibility Department, which is in charge of the Company's compliance with laws and other relevant rules.
- Audit Department performs internal audits in accordance with "Internal Audit Charter" and reports the results to the Executive Committee and to the Audit & Supervisory Board.
- The Company shall establish and implement the internal control system for ensuring the reliability of financial reporting, and also conduct its assessment appropriately.

b) System for preserving and managing information relating to business operations performed by directors
- Documents and other information that relate to directors' performance of its duties shall be properly preserved in accordance with "Document Management Rules" and other internal rules.
- The Audit & Supervisory Board and each individual Audit & Supervisory Board Member at its request shall be given a timely access to the documents in the above.

c) Regulations and systems regarding management of risks that may cause losses
- The Company makes efforts to reduce risks that may affect business of the Company. Also, the Company resolves troubles promptly and properly, when troubles come out. In doing these, directors and employees of the Company comply with "Risk Management Regulations" and other internal rules.

d) System for ensuring efficient functioning of directors
- The Board of Directors supervises operation of each individual director in order for its effective operation.
- The Company keeps the number of directors within proper range, and retains outside directors, so that the Board of Directors can perform more effectively its function, including supervision of each individual director, and can make decisions more promptly. Also, the Company adopts the executive officer system where each officer has specific roles and responsibilities for the Company's operation, in order for its effective operation.
- The Company shall regularly examine if the Board of Directors is effectively and efficiently performing its function, and based on the results, take appropriate measures.
- Directors and employees of the Company comply with "Regulations for Decision-Making" so that the Company can operate its business more promptly and effectively.

e) System for ensuring appropriate business operations of the corporate group comprised of the Company, its parent company and subsidiaries
- Each affiliated company sets each administration section in accordance with "Chugai Group Operation Policy" and "Chugai Group Administration Guidelines (Global)" in order to properly operate the Chugai Group, such as establishing the system to report matters on each affiliated company's business operations, regulations and systems regarding the management of risks that may cause losses, a system for ensuring efficient business operations and ensuring compliance with laws and the articles of incorporation.

- Audit Department examines the affiliated companies in accordance with “Internal Audit Charter” and finds out whether the affiliated companies operate their business properly and effectively complying with laws, their articles and other relevant rules.

f) System for elimination of antisocial forces

- The Company shall establish and maintain the corporate system that eliminates any connection with antisocial forces and groups in accordance with "Chugai Business Conduct Guidelines (Chugai BCG)."

g) System concerning employees who are requested by Audit & Supervisory Board Members to provide support

- The Company sets Office of Audit & Supervisory Board Members, which supports the Audit & Supervisory Board and each individual Audit & Supervisory Board Member.

h) Assurance of the Independence of Employees in the Previous Section from Directors and Effectiveness of the Instructions of Audit & Supervisory Board Members

- Office of Audit & Supervisory Board Members reports directly to the Audit & Supervisory Board and has full-time employees to ensure independence from directors and the effectiveness of instructions of Audit & Supervisory Board Members.
- The Company shall have a prior approval from the Audit & Supervisory Board, when the Company does something that may cause a material effect to an employee of Office of Audit & Supervisory Board Members, such as new designation, transfer, evaluation and disciplinary action.

i) System available to the Company’s directors, employees, and each subsidiary’s directors, Audit & Supervisory Board Members and employees for reporting to Audit & Supervisory Board Members; and other systems for reporting to Audit & Supervisory Board Members

- Each director of the Company, and each director and Audit & Supervisory Board Member of each subsidiary makes a report regularly to the Audit & Supervisory Board in accordance with “Regulations of Audit & Supervisory Board” and “Audit & Supervisory Board Members’ Auditing Standards” set by the Audit & Supervisory Board.
- Required measures shall be taken in order for the person who has made the report under this section not to be treated unfavorably due to this report.

j) System for ensuring effective auditing by Audit & Supervisory Board Members

- Representative Directors have meetings regularly with the Audit & Supervisory Board to exchange opinions and deepen mutual understandings with regard to issues relating to audit which need to be improved by the Company, circumstances under which Audit & Supervisory Board Members perform audits, and other important issues relating to audits.
- Directors and employees of the Company and its affiliated companies cooperate with Audit & Supervisory Board Members, when Audit & Supervisory Board Members perform audits of the companies in accordance with “Audit & Supervisory Board Members’ Auditing Standards” set by Audit & Supervisory Board Members.
- Costs or indemnification arising from business operations performed by the Audit & Supervisory Board Members are promptly processed upon the request of the Audit & Supervisory Board Members.

(2) Overview of Status of Operation of the Framework to Ensure Operational Adequacy

Status of major operations for the fiscal year under review is as follows.

[Corporate Governance]

- The Company has established the “Chugai Pharmaceutical Co., Ltd. Basic Corporate Governance Policy” and has ensured the appropriateness of its corporate governance in order to carry out its social responsibility to patients, consumers, and all other stakeholders, such as medical practitioners, business partners, the public, employees, and shareholders, and achieve sustainable growth and increased corporate value.

- The Company has established the new “Chugai Group Operation Policy” and “Chugai Group Administration Guidelines (Global)” to strengthen group governance and reinforce the autonomous management of the affiliated companies. In conjunction with this, the “Administration Rules for the Affiliated Companies” have been abolished.
- As for the affiliated companies in and outside of Japan, in accordance with the “Chugai Group Operation Policy” and the “Chugai Group Administration Guidelines (Global),” which were established in July, quarterly reporting meetings were held to regularly monitor business operations and appropriately manage the affiliated companies. We also periodically ascertain the state of risk management and compliance efforts of these affiliated companies.
- In compliance with the Corporate Governance Code, which was revised in June, partial amendments were made to the “Chugai Pharmaceutical Co., Ltd. Basic Corporate Governance Policy” in November.
- The internal audit was conducted according to an annual audit plan approved by the Executive Committee and we have provided a relevant report to it and the Audit & Supervisory Board. This audit did not point out any material inadequacy on the part of the Company.

[Execution of business operations by directors]

- Documents pertaining to business operations performed by directors were appropriately managed in accordance with the "Document Management Rules" and related rules and guidelines.
- For the purpose of strengthening the function of the Board of Directors and expediting the decision-making process, the number of directors was adjusted to an appropriate number and outside directors were added. In addition, an executive officer system was adopted.
- To supervise the effective operations of directors, conditions of business operations were reported by representative directors and other directors to the Board of Directors, in accordance with Article 363 of the Company Law.
- The evaluation of the effectiveness of the Board of Directors is implemented with the purpose of regularly examining whether the Board is performing its function properly for the improvement of the function. A self-evaluation questionnaire survey was implemented with all Directors and Audit & Supervisory Board Members as the subjects. The results were reported to the Board of Directors for further discussion. For your information, the results of the questionnaire have confirmed that the effectiveness of the Board of Directors is secured.
- In the meeting of the Board of Directors, the CEO provides information on the environment and trends of the industry and the current status of Chugai and others in order to provide support to the efficient business operations by outside directors and outside Audit & Supervisory Board Members.
- Based on the “Chugai Pharmaceutical Co., Ltd. Basic Corporate Governance Policy,” the Information-sharing Meeting among Chugai Outside Board Members was held for the provision of the information necessary for a more active discussion at the meeting of the Board of Directors and for a better mutual cooperation between outside officers.
- The Board of Directors held 9 meetings and the Executive Committee held 35 meetings.
- Five persons from among outside directors and outside Audit & Supervisory Board Members who have satisfied the requirements for independent officers stipulated by the Tokyo Stock Exchange, Inc. and the Independence Standards established by the Company have been registered at the said Exchange as “independent officers.”
- The Company transitioned from a Supervising Officer system to an Executive Vice President system. The new governance system with Executive Vice Presidents where their supervisory responsibilities for divisions and functions across the Company are divided and defined enables the clarification of responsibilities for business operations and the speedy and high-quality decision making.

[Compliance]

- The Compliance Committee, a subsidiary organization of the Executive Committee, was held four times during the fiscal year under review (March, June, September and December) to discuss and report activities relating to global compliance including those of the subsidiaries both in and outside of Japan, and the results of compliance-related activities and action plans were discussed and reported.
- The BCG and human-rights training was held twice during the fiscal year under review for all the Group employees. The training in the first half of the year reconfirmed the importance for each organization to work on compliance autonomously, while also teaching the importance of an “open organization and culture” in autonomously promoting compliance, for the purpose of developing a sincere corporate culture that does not hide business mistakes and rule violations. The training in the second half of the year confirmed the demand on entities for initiatives to eliminate human rights violations from a broad perspective and taught the importance of approaching business activities overall with a human rights perspective, in addition to introducing the concept and priority items of the Group’s health and productivity management, and teaching the importance for each employee to strive to maintain and increase his or her health. To raise the awareness of the participants and improve the content of training, an online survey was conducted after each training, and the level of understanding and the appropriateness of themes were monitored.
- Efforts were made to promote penetration of corporate ethics and compliance with the managers who are responsible for compliance and members of those organizations, through the compliance officers assigned to each Department and subsidiary.
- In order to understand the compliance conditions of each Group company, including the affiliated companies in and outside of Japan, a fact-finding survey of compliance was conducted in February and July, and the results were reported to the Compliance Committee.
- The operating conditions of the “BCG Hotline” as a consultation and contact point have been regularly reported to the Compliance Committee and Audit & Supervisory Board Members (Full-time) and the Audit & Supervisory Board Members of the subsidiaries.
- For internal control assessment pertaining to financial reports, the target assessment range was selected and the assessment preparation conditions were evaluated in the period from January to June and the implementation status was assessed during the July to December period, based respectively on the annual plan approved by the chief financial officer. The assessment results were reported to the chief financial officer. This assessment did not cite any material inadequacy required to be disclosed.

[Risk management]

- Based on the "Regulations for Risk Management", the Risk Management Committee has been set as a subsidiary organization of the Executive Committee.
- The Risk Management Committee checks and confirms the status of risks at each department and the progress of major Chugai Group risk issues on a quarterly basis.
- The state of the approaches to the “risk issues of the Chugai Group” in 2017, and the main issues of 2018 were reported to the Board of Directors.
- A risk management system for overseas subsidiaries based on the “Risk Management Policy” has been established and is operating at a level equal to that of the domestic departments.
- “Response to the Needs for the Globalization of Information Control” and “Business Impact Evaluation and Consideration of BCP at the Time of Internet Shutdown” have been set as the “risk issues of the Chugai Group.” and initiatives are being taken in order to avoid and minimize losses.
- “The Chugai Business Conduct Guidelines (Chugai BCG)” explicitly specifies the commitment to eliminating connection with any antisocial forces or groups. Accordingly, the Company addressed the elimination of connection with antisocial forces and groups.

[Audit & Supervisory Board Members]

- The directors and the managers of main organizations, each director and Audit & Supervisory Board Member of each subsidiary reported business execution conditions to the Audit & Supervisory Board Members (Full-time) as deemed necessary.
- Audit & Supervisory Board Members (Full-time) attended the Executive Committee and closely supervised their operations.
- Audit & Supervisory Board Members (Full-time) attended the Corporate Social Responsibility Committee, the Compliance Committee and the Risk Management Committee to grasp related information.
- Office of Audit & Supervisory Board Members, which was established as a supplementary organization to provide support to the Audit & Supervisory Board and Audit & Supervisory Board Members' function, has been providing support to ensure smooth operation of auditing activities. The independence of the employees working in the Office of Audit & Supervisory Board Members is guaranteed by the "Audit & Supervisory Board Members' Auditing Standards" and "Regulations for Decision-Making."
- The representative directors had meetings with the Audit & Supervisory Board regularly to exchange opinions about issues relating to audits that needed to be addressed by the Company, circumstances under which Audit & Supervisory Board Members performed audits and other important issues relating to audits, in an effort to deepen the mutual understanding (Three times each with the Chairman, Deputy Chairman and President [February, May and October]).

Consolidated statement of changes in equity (IFRS)

(January 1, 2018 to December 31, 2018)

(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, 2018	**72,970**	**64,815**	**550,974**	**3,166**	**691,924**	**973**	**692,897**
Impact of changes in accounting policies	**-**	**-**	**10,606**	**-**	**10,606**	**-**	**10,606**
At January 1, 2018 (revised)	**72,970**	**64,815**	**561,580**	**3,166**	**702,530**	**973**	**703,503**
Net income recognized in income statement	-	-	92,488	-	92,488	591	93,079
Net change in fair value - financial assets at fair value through OCI	-	-	-	363	363	-	363
Cash flow hedges	-	-	-	(225)	(225)	-	(225)
Currency translation of foreign operations	-	-	-	(3,077)	(3,077)	(82)	(3,158)
Remeasurements of defined benefit plans	-	-	(2,472)	-	(2,472)	-	(2,472)
Total comprehensive income	**-**	**-**	**90,016**	**(2,938)**	**87,078**	**509**	**87,587**
Dividends	-	-	(35,003)	-	(35,003)	(817)	(35,820)
Equity compensation plans	31	(97)	-	-	(66)	-	(66)
Own equity instruments	-	1,325	-	-	1,325	-	1,325
Transfer from other reserves to retained earnings	-	-	1,498	(1,498)	-	-	-
At December 31, 2018	**73,000**	**66,043**	**618,091**	**(1,270)**	**755,864**	**664**	**756,529**

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: 17 companies.

Names of major subsidiaries: Chugai Pharma Europe Ltd., and Chugai Pharma Manufacturing 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) The classification of financial instruments

Effective January 1, 2018 the Group has implemented IFRS 9 ‘Financial Instruments.’

The Group classifies its financial assets, with the exception of derivatives, in the following measurement categories: amortised cost; fair value through OCI – debt securities; fair value through OCI – equity securities.

The classification depends on the Group’s business model for managing the financial assets and the contractual terms of the cash flows. The Group reclassifies debt securities and financial assets at amortised cost when and only when its business model for managing those assets changes.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost, less provision for impairment. A gain or loss on a debt security that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the asset is derecognised or impaired. Interest income from these financial assets is included in other finance income using the effective interest rate method. Assets at amortised cost are mainly comprised of accounts receivable, cash and cash equivalents and time accounts over three months.

Fair value through other comprehensive income (fair value through OCI): These are financial assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest. Those are initially recorded and subsequently carried at fair value. Changes in the fair value are recorded in other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit and loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss. Interest income from these financial assets is included in other financial income using the effective interest rate method. Fair value through other comprehensive income assets are mainly comprised of money market instruments and debt securities.

Equity instruments at fair value through other comprehensive income (fair value through OCI): These are equity investments of which an irrevocable election at initial recognition has been made, to present subsequent changes in fair value in other comprehensive income. Dividends are recognised as other financial income in profit or loss. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss. When the instruments are derecognized, the cumulative amount of other comprehensive income is transferred to retained earnings.

The Group classifies its financial liabilities as measured at amortised cost, except for derivatives. Financial liabilities are initially recorded at fair value, less transaction costs and subsequently carried at amortised cost using the effective interest rate method. Financial liabilities are mainly comprised of trade payables.

Derivative financial instruments that are used to manage the exposures to foreign currency 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).

(b) Derecognition of financial instruments
A financial asset is derecognized when the contractual rights to the 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
The Group recognises loss allowances for expected credit losses ('ECL') for financial assets measured at amortised cost and debt securities measured at fair value through OCI.

The Group measures loss allowances at an amount equal to 12-month expected credit losses for its debt securities carried at fair value through OCI and at amortised cost that are determined to have low credit risk at the reporting date. The Group considers a debt investment to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade'. The Group considers this to be at least Baa3 from Moody's and BBB-from S&P.

The Group measures the allowances for doubtful account at an amount equal to lifetime ECL for its debt investments at fair value through OCI and at amortised cost on which credit risk has increased significantly since their initial recognition. The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

Financial assets are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Group determines that the customer does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off are still subject to enforcement activities in order to comply with the Group's policy for recovery of amounts due.

(2) Basis and method for valuation of derivatives
Hedge accounting
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 transaction, when that transaction 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, otherwise included in profit or loss when the hedged transaction affects net income.
For other hedged forecasted cash flows, 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, work in process and intermediates 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	10-17 years
Marketing intangibles in use	-5 years
Technology intangibles in use	7-9 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.

Changes in accounting policies

In 2018 the Group implemented the following new standards, including any consequential amendments to other standards, with a date of initial application of January 1, 2018.
- IFRS 9 ‘Financial Instruments’
- IFRS 15 ‘Revenue from Contracts with Customers’

The nature and the effects of the changes most relevant to the Group’s Consolidated Financial Statements are given below.

IFRS 9 'Financial Instruments'
Effective January 1, 2018 the Group has implemented IFRS 9 'Financial Instruments.' The new standard replaces IAS 39 'Financial Instruments: Recognition and Measurement.' The standard deals with the classification, recognition and measurement (including impairment) of financial instruments and also introduces a new hedge accounting model.
There is no material impact on the Group's performance or financial position from the application of this standard.

Classification and measurement of financial instruments.
In accordance with the transitional provisions of IFRS9, financial instruments are classified, on the basis of the facts and circumstances that exist at the date of initial application, as follows: Items such as equity securities and debt securities which were previously classified as available-for-sale under IAS 39, with the exception of time accounts over three months, are classified as financial assets at fair value through other comprehensive income (OCI), and time accounts over three months as amortized cost. Though the Group takes advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement changes, since there were no changes in the carrying amounts, no adjustments were made to retained earnings as of January 1, 2018.
Changes in the fair value of equity instruments designated as financial assets at fair value through other comprehensive income are recognized in other comprehensive income, and the cumulative amount of other comprehensive income is transferred to retained earnings when the instruments are derecognized.

Impairment of financial assets.
On January 1, 2018 the Group changed the methodology of assessing impairment of its financial assets from the incurred loss model (used in IAS 39) to the expected credit loss model (used in IFRS 9). The new impairment model is applied to financial assets measured at amortised cost and debt securities measured at fair value through OCI, but not equity securities. In accordance with the transitional provisions of IFRS 9, the Group has not restated prior periods but it has reassessed the impairment allowances under the new approach as of January 1, 2018.

Hedge accounting.
As the Group may continue to apply the hedge accounting requirements of IAS 39 instead of those in IFRS 9 at the initial application of IFRS 9, the Group has chosen to continue to apply the hedge accounting requirements of IAS 39.

IFRS 15 'Revenue from Contracts with Customers'
Effective January 1, 2018 the Group has implemented IFRS 15 'Revenue from contracts with customers.' The new standard replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts.' IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized, and also contains new requirements related to presentation. The core principle in that framework is that revenue should be recognized dependent on the transfer of promised goods or services to the customer for an amount that reflects the consideration which should be received in exchange for those goods or services. The objective of the standard is to provide a five-step approach to revenue recognition that includes identifying contracts with customers, identifying performance obligations, determining transaction prices, allocating transaction prices to performance obligations, and recognizing revenue when or as performance obligations are satisfied. Judgement will need to be applied, including making estimates and assumptions, for multiple-element contracts in identifying performance obligations, in constraining estimates of variable consideration and in allocating the transaction price to each performance obligation. The new standard results in an increased volume of disclosure information in the Annual Financial Statements.

Changes introduced by the standard relevant to the Group.
The new standard provides new requirements and additional guidance that are relevant to the Group, notably on the following areas:

- Revenues from licenses of intellectual property, including sales-based royalties, on constraining estimates of variable consideration such as e.g. development milestones that may be regarded as a separate performance obligation involving variable consideration. There is no material impact from these changes.
- The new standard also clarifies how to allocate sales, including the treatment of discounts, to each element in multiple-elements contracts and when to recognize sales for each of those elements. It requires the use of estimates and assumptions and some judgement to apply this guidance in practice. There is no material impact from this guidance.
- Out-licensing contracts may be entered into with no further obligation or may include commitments to research, late-stage development, regulatory approval, co-marketing or manufacturing. These may be

settled by a combination of up-front payments, milestone payments, and reimbursements for services provided. Whether to consider these commitments as a single performance obligation or separate ones, or even being in scope of IFRS 15, is not straight-forward and requires some judgement. Depending on the conclusion, this may result in all revenue being calculated at inception and either being recognized at once or spread over the term of a longer performance obligation. With the application of this standard, upfront payment received, which was formerly recognized over time as deferred income, is recognized as one-time income on out-licensing.

Transition approach.
The Group recognizes the cumulative effect of applying the new standard at the date of initial application, with no restatement of the comparative periods presented. It records the cumulative effect, the amount of ¥10,606 million after tax effect, as an adjustment to the opening balance of retained earnings at the date of initial application. Except for this adjustment, there is no material impact on the Group’s performance or financial position from the application of this standard.

Notes to the consolidated balance sheet

1. Accumulated depreciation and impairment of property, plant and equipment ¥ 181,566 million

2. Commitment line contract
Chugai maintains commitment line contracts with eight 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
Commitments used		—
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, 2018
Common stock 559,685,889 shares
Type and number of treasury stock as of December 31, 2018
Common stock 12,459,413 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 22, 2018 Annual General Meeting of Shareholders	Common stock	18,044	33	December 31, 2017	March 23, 2018
July 26, 2018 Meeting of the Board of Directors	Common stock	16,960	31	June 30, 2018	August 31, 2018

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 28, 2019 Annual General Meeting of Shareholders	Common stock	30,097	Retained earnings	55	December 31, 2018	March 29, 2019

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

	Sixth stock acquisition rights (stock options)	2009 stock acquisition rights (Stock options as stock-based compen-sation)	Seventh stock acquisition rights (stock options)	2010 stock acquisition rights (Stock options as stock-based compen-sation)	Eighth stock acquisition rights (stock options)	2011 stock acquisition rights (Stock options as stock-based compen-sation)
Date of approval for issuance	March 25, 2009	April 24, 2009	April 23, 2010	April 23, 2010	May 27, 2011	May 27, 2011
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)	2,000	51,900	29,000	57,900	21,300	67,200

	Ninth stock acquisition rights (stock options)	2012 stock acquisition rights (Stock options as stock-based compen-sation)	Tenth stock acquisition rights (stock options)	2013 stock acquisition rights (Stock options as stock-based compen-sation)	Eleventh stock acquisition rights (stock options)	2014 stock acquisition rights (Stock options as stock-based compen-sation)
Date of approval for issuance	April 24, 2012	April 24, 2012	April 25, 2013	April 25, 2013	April 24, 2014	April 24, 2014
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)	125,100	65,900	110,800	41,400	129,300	38,300

	Twelfth stock acquisition rights (stock options)	2015 stock acquisition rights (Stock options as stock-based compen-sation)	Thirteenth stock acquisition rights (stock options)	2016 stock acquisition rights (Stock options as stock-based compen-sation)
Date of approval for issuance	April 22, 2015	April 22, 2015	April 22, 2016	April 22, 2016
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)	207,500	26,100	174,100	29,600

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. 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 both 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	¥1,381.26
2. Basic earnings per share	¥169.08

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

(January 1, 2018 to December 31, 2018)

(Millions of yen)

	Shareholders' equity								
		Capital surplus			Retained earnings				
						Other retained earnings			
	Capital stock	Legal capital surplus	Other capital surplus	Total Capital surplus	Legal retained earnings	Reserve for advanced depreciation of non-current assets	General reserve	Retained earnings carried forward	Total Retained earnings
Balance as of the beginning of the year	73,202	93,050	381	93,431	6,480	709	149,220	309,760	466,169
Changes during the period									
Reversal of reserve for advanced depreciation of non-current assets						(16)		16	—
Dividends paid								(35,003)	(35,003)
Net income								86,529	86,529
Purchase of own equity instruments									
Disposal of own equity instruments			602	602					
Net changes except for shareholders' equity									
Net changes during the period	-	-	602	602	—	(16)	—	51,542	51,526
Balance as of the end of the year	73,202	93,050	983	94,033	6,480	693	149,220	361,302	517,695

	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	(30,233)	602,569	5,359	281	5,640	1,728	609,937
Changes during the period							
Reversal of reserve for advanced depreciation of non-current assets		—					—
Dividends paid		(35,003)					(35,003)
Net income		86,529					86,529
Purchase of own equity instruments	(20)	(20)					(20)
Disposal of own equity instruments	1,064	1,666					1,666
Net changes except for shareholders' equity			(1,064)	(225)	(1,288)	(289)	(1,578)
Net changes during the period	1,044	53,171	(1,064)	(225)	(1,288)	(289)	51,593
Balance as of the end of the year	(29,190)	655,740	4,296	57	4,352	1,438	661,530

Notes to the non-consolidated financial statements

Significant Accounting Policies

1. Basis and method for valuation of assets

(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.)

2. Basis and method for valuation of non-current assets

(1) Property, plant and equipment (excluding leased assets)	Depreciation of property, plant and equipment is calculated primarily by the declining-balance method.
(2) 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).
(3) 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.

3. 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 employees' retirement benefits	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. 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. 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.
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.

4. Other basis of presentation of the non-consolidated financial statements

(1) Accounting for deferred assets	Stock issuance cost is accounted for as the full amount at the time of the expenditure.
(2) 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.
(3) Accounting for consumption tax	Income and expenses are recorded at net of consumption taxes.
(4) 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.
(5) Stated amounts	In the accompanying non-consolidated financial statements, amounts are rounded to the nearest 1 million yen.

Notes to the non-consolidated balance sheet

1. Accumulated depreciation of property, plant and equipment ¥112,339 million

2. Monetary receivables and payables with subsidiaries and affiliates
   Short-term monetary receivables due from subsidiaries and affiliates ¥45,857 million
   Short-term monetary payables due to subsidiaries and affiliates ¥13,133 million

3. Contingent liabilities
   Guarantees of (housing) loans of employees ¥19 million

4. Commitment line contract
   Chugai maintains commitment line contracts with eight 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 ¥519,695 million
   Other operating income ¥52,045 million

2. Transactions with subsidiaries and affiliates
   Net sales to subsidiaries and affiliates ¥5,669 million
   Purchases from subsidiaries and affiliates ¥196,534 million
   Supply of raw materials to subsidiaries and affiliates for a fee ¥127,681 million
   Non-operating transactions with subsidiaries and affiliates ¥4,151 million

3. Adjustment from transfer pricing taxation
   Chugai had filed the Advance Pricing Arrangement covering the certain transactions with F. Hoffmann-La Roche Ltd., to Japanese and Swiss tax authorities. In the first quarter of FY 2017, Chugai received a notice of agreement from both tax authorities which includes the instruction that the taxable income of Chugai shall be decreased by a certain amount and that of Roche shall be increased by the same amount in each fiscal year from 2016 to 2020, and if necessary, additional adjustments to the accounts shall be made in 2021.
   As a result of this agreement, Chugai will transfer a part of the deducted amount of corporate tax etc., to Roche as the estimated tax payable for Roche, in accordance with the license agreement between Chugai and Roche. In addition, it has posted ¥3,212 million of adjustment from transfer pricing taxation.

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

Type and number of treasury stock as of December 31, 2018
Common stock 12,459,413 shares

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 revaluation on other marketable securities.

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 Common directors: none	Contract manufacturing of pharmaceuticals	160,125	Accounts payable -trade	4,648
				Supply of pharmaceutical ingredients for a fee	127,681	Accounts receivable -other	43,099
				Lending of funds Collection of funds Receipt of interest	42,200 35,900 213	Short-term loans	27,700

(*): 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 Common directors: Yes	Purchase of pharmaceutical ingredients	125,657	Accounts payable -trade	29,567
				Sales of pharmaceuticals	134,188	Accounts receivable -trade	36,276
				Cost-sharing in joint developments (receivable)	11,757	Accounts receivable -other	8,548
				Cost-sharing in joint developments (payable)	11,745	Accrued expenses	7,729

(*): 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 0.05%	Representative director	Exercise of stock options	299	—	—
Corporate director	Motoo Ueno	Directly being owned 0.14%	Representative director	Exercise of stock options	59	—	—
Corporate director	Tatsuro Kosaka	Directly being owned 0.00%	Representative director	Exercise of stock options	36	—	—

(*): 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 Meeting of the Board of Directors of Chugai held on March 25, 2009, 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, the Meeting of the Board of Directors of Chugai held on April 25, 2013, the Meeting of the Board of Directors of Chugai held on April 24, 2014, the Meeting of the Board of Directors of Chugai held on April 22, 2015, and the Meeting of the Board of Directors of Chugai held on April 22, 2016.

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	¥1,206.25
2. Net income per share	¥158.18