

[**Translation:** Please note that the following purports to be a translation from the Japanese original Notice of Convocation of the 113th Annual General Meeting of Shareholders for the business term ended December 31, 2023 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.]

Start date of measures for electronic provision: February 27, 2024

**Other Items Provided Electronically for the Notice of Convocation of the
113th Annual General Meeting of Shareholders for the Business Term
Ended December 31, 2023
(Items Omitted from the Paper Copy)**

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CHUGAI PHARMACEUTICAL CO., LTD.

Business Report

Company's Stock Acquisition Rights, etc.

(1) Stock Acquisition Rights Held by Corporate Officers (as of December 31, 2023)

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
Eleventh issue of stock acquisition rights (May 12, 2014)	180 units	54,000 shares of the Company's common stock	JPY267,600	From May 12, 2014 to April 24, 2024	—	—
Twelfth issue of stock acquisition rights (May 11, 2015)	357 units	107,100 shares of the Company's common stock	JPY400,800	From May 11, 2015 to April 22, 2025	—	—
Thirteenth issue of stock acquisition rights (May 10, 2016)	598 units	179,400 shares of the Company's common stock	JPY374,700	From May 10, 2016 to April 22, 2026	60 units (two persons)	40 units (one person)

- (Notes) 1. Since the Company implemented a three-for-one stock split on July 1, 2020, the number of shares issued per stock acquisition right has been revised to 300 shares. The amount payable upon exercise per stock acquisition right has been adjusted in each issue upon the split.
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.

(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.

(Note) It was found wrong figures of "Amount payable upon exercise per stock acquisition right" in the business report for the previous fiscal year. The correct figures are shown above.

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	128	—	135	—
Consolidated Subsidiaries	15	—	16	—
Total	143	—	151	—

(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.

- 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 Group Code of Conduct (CCC).”
 - The Company sets Risk & Compliance 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, the Audit & Supervisory Board and the Board of Directors.
 - 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 “Record 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 Group Code of Conduct (CCC).”
- 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.
- 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),” quarterly reporting meetings were held to regularly monitor business operations and appropriately manage the affiliated companies. In January 2023, with the establishment of the Risk & Compliance Department, the overall risk management and corporate compliance functions for the entire Group were integrated into the Risk & Compliance Department.
- The results of audit in 2022 and the annual audit plan in 2023 were reported to the Board of Directors. In addition, we conducted the internal audits according to the annual audit plan approved by the Executive Committee and provided a relevant report to the committee and the Audit & Supervisory Board.

[Execution of business operations by directors]

- Briefing sessions were held for the Company and its domestic subsidiaries to ensure appropriate use of “CoreRepository,” a system to realize record management based on the “Record Management Rules” and related rules and guidelines (from October to December).
- With the use of the generated AI (Azure Open AI/Chat GPT4), a compliance consultation and evaluation system was established to ensure proper handling of company information and other information on the generated AI.
- The Company adopted “Company with an Audit & Supervisory Board” as its corporate organizational structure under the Companies Act in order to ensure the effective oversight of Directors from an independent and objective standpoint.
- Six of the nine Directors are Non-Executive Directors (including three Independent Outside Directors), and we have also established the Compensation Committee, the Appointment Committee and the Special Committee, which are composed of independent outside officers, to strengthen the supervisory function.
- The Company adopted the executive officer system in order to separate managerial decision-making and supervision from the execution of business and work towards swifter executive decision-making.
- 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 Companies Act (in January, April, July and October).
- The evaluation of the effectiveness of the Board of Directors is implemented to ensure the effectiveness of decision-making and supervision by the Board of Directors. The analyses and evaluations were conducted by an external evaluation organization from fiscal year 2019, and a self-evaluation questionnaire survey for fiscal year 2022 of all Directors and Audit & Supervisory Board Members (from February to March) was implemented, along with interviews with some directors and Audit & Supervisory Board Members by the external evaluation organization (from March to April). The results were reported to the Board of Directors for further discussion (in May). The results of this evaluation resulted in the external evaluation 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.
- The Board of Directors held 10 meetings, and the Executive Committee held 43 meetings. The Special Committee held 3 meetings, the Appointment Committee held 4 meetings, and the Compensation Committee held 3 meetings.
- Six 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 designated at the said Exchange as “independent officers.”

[Compliance]

- As for the Compliance Committee, a subsidiary organization of the Executive Committee, we have strengthened the system to oversee the three compliance areas of corporate compliance, healthcare compliance, and GxP, and to discuss measures to deal with serious compliance risks and to improve effectiveness and efficiency. We confirmed that there were no issues materially affecting the management of the Company at present.
- The Compliance Committee held regular quarterly meetings, as well as extraordinary meetings in January and May.
- The functions of compliance officers who promote compliance in each organization in Japan were strengthened through the sharing of compliance incidents that occurred within the companies, discussions on appropriate responses when such incidents occur, and training related to fraud investigations, etc.
- For the purpose of promoting awareness and recognition of the Chugai Group Code of

Conduct (CCC), the CCC and human-rights training (e-learning) was held for the employees of the Company and affiliated companies in Japan in November. This year's theme was "Creating Workplaces Free of Harassment," with a focus on re-acknowledging the existence of unconscious assumptions and prejudices, and promoting the use of multiple consultation and contact points.

- In addition to the CCC Hotline as a consultation and contact point available to all employees of the Group, the Chugai-Speak-Up Line has been established as a global consultation and contact point that ensures anonymity. The status of consultation and contact and matters to be noted have been regularly reported to the Compliance Committee, Full-time Audit & Supervisory Board Members and Audit & Supervisory Board Members of the subsidiaries.
- The "CCC" clearly states that the Group shall eliminate all relationships with antisocial forces and groups, and the Group is committed to eliminating such relationships.

[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 holds quarterly discussions on the status of the Group's response to major risks and how risk management should be conducted, etc. An extraordinary Risk Management Committee meeting was held in December to update strategic risks based on external environmental trends and the risk recognition of the officers in charge, and to discuss the policy for disclosure of information outside the Group.
- The state of the approaches to the "risk issues of the Chugai Group" in 2022, and the main issues of 2023 were reported to the Board of Directors (in January).
- "Establishment of a system to respond to external environmental risks (geopolitical risks)" and "establishment of a third-party risk management system" have been set as the risk issues of the Chugai Group in 2023.
- We have formulated business continuity management (BCM) guidelines and established quality control rules for BCPs, as well as established an all-hazards emergency response system and reviewed existing BCPs.
- Earthquake BCP training was held at all locations (15 times in total). Assuming the occurrence of a security incident (ransomware attack) at a factory, training was conducted with the attendance of the Head of the Emergency Headquarters (Representative Director, President) on the coordination between the factory and the head office in the initial response and the Emergency Headquarters' response items in the event of company-wide business impact.

[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 Full-time Audit & Supervisory Board Members as deemed necessary.
- Full-time Audit & Supervisory Board Members attended the Executive Committee to closely supervise their operations, and attended the Environment, Health and Safety (EHS) Committee, the Compliance Committee, the Risk Management Committee, and the Corporate Communications 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 and executive directors had meetings with the Audit & Supervisory Board 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 (meetings with representative directors and executive directors [in February, June and October]).

Consolidated statement of changes in equity (IFRS)

(January 1, 2023 to December 31, 2023)

(Millions of yen)

Item	Attributable to Chugai Shareholders					Subtotal	Total equity
	Share capital	Capital surplus	Retained earnings	Other reserves	Subtotal		
At January 1, 2023	73,202	68,806	1,293,352	(10,973)	1,424,387	1,424,387	
Net income recognized in income statement	—	—	325,472	—	325,472	325,472	
Financial assets measured at fair value through OCI	—	—	—	(163)	(163)	(163)	
Cash flow hedges	—	—	—	(2,121)	(2,121)	(2,121)	
Currency translation of foreign operations	—	—	—	7,012	7,012	7,012	
Remeasurements of defined benefit plans	—	—	2,055	—	2,055	2,055	
Total comprehensive income	—	—	327,527	4,729	332,256	332,256	
Dividends	—	—	(131,612)	—	(131,612)	(131,612)	
Equity compensation plans	—	17	—	—	17	17	
Own equity instruments	—	533	—	—	533	533	
Transfer from other reserves to retained earnings	—	—	(529)	529	—	—	
At December 31, 2023	73,202	69,355	1,488,738	(5,715)	1,625,580	1,625,580	

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: 15 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

The Group classifies its financial assets, with the exception of derivatives, in the following measurement categories: amortised cost; fair value through OCI; and fair value through profit or loss.

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 measured 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 excluding trade receivables at transaction price if it does not contain a significant financing component. 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 are added to the fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

Financial assets measured at 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. 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 financial income using the effective interest rate method. Financial assets measured at amortised cost are mainly comprised of accounts receivable, cash and cash equivalents and time accounts over three months.

Financial assets measured at 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. These assets 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. Financial assets measured at fair value through other comprehensive income are mainly comprised of money market instruments.

Equity instruments measured at fair value through other comprehensive income (fair value through OCI): These are equity instruments measured at fair value through OCI for 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.

Financial assets measured at fair value through profit or loss: These are financial assets whose performance is evaluated on a fair value basis. A gain or loss on a financial asset that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented within other financial income (expense) in the period in which it arises. Fair value through profit or loss assets are mainly comprised of debt instruments.

The Group classifies its financial liabilities 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 exchange rate fluctuations 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 always measures loss allowances that result from transactions that are within the scope of IFRS 15 equal to the credit losses expected over the lifetime of the trade receivables.

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 when the credit risk for these accounts has not increased significantly since initial recognition 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.

The Group considers a financial asset to be in default when the counterparty is unlikely to pay its obligations to the Group in full. In assessing whether a counterparty is in default, the Group considers both qualitative and quantitative indicators that are based on data developed internally and for certain financial assets also obtained from external sources.

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 mainly include forwards contracts. 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). 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.

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, or 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. Hedge accounting is discontinued proactively if the hedging instrument is sold, expired, terminated or exercised; if the hedge no longer meets the requirements of hedge accounting; or if the hedging instrument is no longer designated as a qualifying cash flow hedging instrument. If a forecast transaction is no longer considered highly probable, the cumulative changes in the fair value of the hedging instrument that have been recorded in other comprehensive income are immediately transferred to 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, trademarks, licenses 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	3-18 years
Marketing intangibles in use	5 years

Additionally, gains arising from the disposal of product rights are included in other operating income (expense) in the consolidated income statement.

(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 asset may be impaired. In addition, intangible assets that are not yet available for use are tested for impairment annually. When the recoverable amount of an asset, being the higher of its fair value less costs to sell and its value in use, is less than its carrying value, then the carrying value is reduced to its recoverable amount. This reduction is reported in the income statement as an impairment loss. Value in use is calculated using estimated cash flows. These are discounted using an appropriate long-term interest rate. When an impairment loss arises, the useful life of the asset 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's 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 the 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 other operating income (expense) within the operating results.
- Settlement gains or losses are recognized in other operating income (expense) 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 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) Basis of recording revenues and expenses

Sales: Revenue from the sale of goods supplied is recorded as 'Sales.'

Sales are recognized when a promise in a customer contract (performance obligation) has been satisfied by transferring control over the promised goods to the customer. Control over a promised good refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, those goods. Control is usually transferred upon shipment or delivery to or upon receipt of goods by the customer, in accordance with the delivery and acceptance terms agreed with the customers. The Group generally receives payment from customers within four months from the delivery of goods to the customer. There is no significant financing component. The amount of sales to be recognized (transaction price) is based on the consideration Chugai expects to receive in exchange for its goods, excluding amounts collected on behalf of third parties such as consumption tax or other taxes directly linked to sales. The Group recognizes deferred income (contract liability) if consideration has been received (or has become receivable) before it transfers the promised goods to the customer.

Other revenue: Other revenue includes royalty income, income from out-licensing agreements, and income from profit-sharing arrangements with collaboration partners.

Revenue for a sales-based or usage-based royalty promised in exchange for a license of intellectual property is recognized when the subsequent sale or usage occurs.

Income from out-licensing agreements typically arises from the receipt of upfront, milestone and other similar payments from third parties for granting a license to product or technology related intellectual property (IP). Out-licensing agreements may be entered into with no further obligation or may include commitments to conduct research, late-stage development, regulatory approval, co-marketing or manufacturing. Licenses granted are usually rights to use IP and are generally unique. Therefore, the basis of allocating revenue to performance obligations makes use of the residual approach. Upfront payments and other licensing fees are usually recognized upon granting the license unless some of the income shall be deferred for other performance obligations using the residual approach. Such deferred income is released and recognized as revenue when other performance obligations are satisfied. Milestone income is recognized at the point in time when it is highly probable that the respective milestone event criteria is achieved, and the risk of revenue reversal is considered remote. The Group generally receives payment from customers within four months from the time when performance obligations are satisfied. There is no significant financing component.

Income from profit-sharing arrangements with collaboration partners is recognized when underlying sales and cost of sales are recorded by the collaboration partners. The Group generally receives payment from customers within four months from the time when performance obligations are satisfied. There is no significant financing component.

(8) 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 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.

(9) Stated amounts

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

Changes in accounting policies

The Group has adopted the amendments to IAS 12 ‘Income Taxes’ relating to ‘International Tax Reform - Pillar Two Model Rules’ issued in May 2023. The Group has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

Presentational changes

From the fiscal year under review, the Group adopted the following presentational changes.

Changes in the method of presentation of the consolidated income statement

From the fiscal year under review, the Group adopted the following presentational changes to the consolidated income statement.

These changes have no effect on the items from operating profit through net income and earnings per share.

1. “Royalties and other operating income” and “other revenue,” which had previously been reported under revenue have been changed to “other revenue,” while income from disposal of product rights (¥220 million in the previous fiscal year) has been excluded therefrom.
2. “Other revenue” includes royalty income, profit-sharing income, other operating income, and other revenue.
3. “Other operating income (expense),” a new category on the same level as research and development expenses, marketing and distribution expenses, and general and administration expenses has been added. “Other operating income (expense)” includes income from disposal of product rights, which has been excluded from revenue as described above, as well as revenues and expenses associated with operating activities that have previously been included and presented under general and administration expenses, such as gain (loss) on sale of land and buildings, etc., which could not be classified in any of the functional expense categories.
4. Marketing and distribution expenses and general and administration expenses have been combined and presented as “selling, general and administration expenses.”

Changes in the method of presentation of the consolidated balance sheet

From the fiscal year under review, “financial non-current assets” (¥1,837 million in the previous fiscal year) are included in “other non-current assets” (¥49,176 million in the previous fiscal year and have been restated as ¥51,013 million of other non-current assets) due to their diminished materiality.

Accounting estimates

The following is an item for which the amount based on the accounting estimates was recognised in the consolidated financial statements for the current fiscal year, and which may have a material impact on the consolidated financial statements for the following fiscal year.

Recoverability of deferred tax assets

1. Amount recognised in the consolidated financial statements for the current fiscal year:

Deferred tax assets	¥64,474 million
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2. Information on the nature of significant accounting estimates for identified items

Deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilised. The recoverability of deferred tax assets is assessed on future taxable income, which is estimated based on the Group’s business plan.

The timing and amount of future taxable income may be affected by uncertain future changes in economic conditions. If the actual timing and amount differ from the estimates, it may have a material impact on the amount of deferred tax assets in the consolidated financial statements for the following fiscal year.

Notes to the consolidated balance sheet

1. Accumulated depreciation and impairment of property, plant and equipment ¥ 203,701 million

Notes to the consolidated income statement

1. Breakdown of other operating income (expense) in millions of yen
- | | |
|--------------------------|---------------|
| Other operating income | 29,182 |
| Other operating expenses | (621) |
| Total | <u>28,561</u> |

Among other operating income for the fiscal year under review, the major components were ¥14,677 million of income from disposal of product rights and ¥13,910 million of gain on sales of non-current assets.

Notes to the consolidated statement of changes in equity

1. Type and number of outstanding shares as of December 31, 2023
Common stock 1,679,057,667 shares
- Type and number of treasury stock as of December 31, 2023
Common stock 33,743,712 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 30, 2023 Annual General Meeting of Shareholders	Common stock	65,801	40	December 31, 2022	March 31, 2023
July 27, 2023 Meeting of the Board of Directors	Common stock	65,811	40	June 30, 2023	August 30, 2023

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, 2024 Annual General Meeting of Shareholders	Common stock	65,813	Retained earnings	40	December 31, 2023	March 29, 2024

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

	Eleventh stock acquisition rights (stock options)	Twelfth stock acquisition rights (stock options)	Thirteenth stock acquisition rights (stock options)
Date of approval for issuance	April 24, 2014	April 22, 2015	April 22, 2016
Type of shares to be issued upon the exercise of the stock acquisition rights	Common stock	Common stock	Common stock
Number of shares to be issued upon the exercise of the stock acquisition rights (shares)	54,000	107,100	179,400

Note: Effective July 1, 2020, Chugai implemented a three-for-one stock split of its common stock in accordance with the resolution at the meeting of the Board of Directors held on January 21, 2020. The number of shares to be issued upon the exercise of the stock acquisition rights has been adjusted accordingly.

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 approved 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 authorised 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. As of December 31, 2023, and as of December 31, 2022, there were no significant assets held as collateral.

(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.

Chugai is rated as highly creditable by more than one major credit rating agency. The ratings will permit efficient access to the international capital markets in the event of major financing requirements.

(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 to reduce the risk of foreign currency exchange fluctuations related to both assets and liabilities denominated in foreign currencies. Some of these transactions qualify as cash flow hedges at the point that the forecast transaction is expected.

When making use of derivatives for hedging foreign exchange risk on assets and liabilities denominated 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 Group has no amounts of debt or loans, and regarding lease liabilities, given the leases involved and the current low interest rate environment, 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 equity instruments and debt instruments included in other 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, debt and lease liabilities included in other non-current liabilities and other current liabilities. The carrying values of these financial instruments are equal to or reasonable approximates of fair values. Disclosure of the fair value of lease liabilities are not required.

3. Matters concerning the fair value of financial instruments and breakdown by input level

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2 - observable inputs directly or indirectly other than quoted prices in active markets for identical assets and liabilities.
- Level 3 - fair value measured using valuation method which includes unobservable inputs.

Fair value hierarchy of financial instruments in millions of yen

	Level 1	Level 2	Level 3	Total
Marketable securities:				
- Money market instruments	—	249,985	—	249,985
- Debt securities	767	—	130	897
Other current assets				
- Derivative financial instruments	—	11,789	—	11,789
Other non-current assets				
- Equity instruments measured at fair value through OCI	—	—	1,254	1,254
- Debt instrument	—	9,206	2,045	11,251
Financial assets recognized at fair value	<u>767</u>	<u>270,981</u>	<u>3,429</u>	<u>275,176</u>
Other current liabilities				
- Derivative financial instruments	—	49,100	—	49,100
Financial liabilities recognized at fair value	<u>—</u>	<u>49,100</u>	<u>—</u>	<u>49,100</u>

Level 1 financial assets consist of corporate bonds. Level 2 financial assets consist primarily of certificates of deposit, cash in trust, commercial paper and derivative financial instruments.

Fair values of Level 2 financial assets are measured as follows:

Marketable securities, debt securities and derivative financial instruments are based on valuation models that use observable market data for interest rates, yield curves, foreign exchange rates and implied volatilities for similar instruments at the measurement date.

The Group recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred. There were no significant transfers between Level 1 and Level 2 and vice versa.

Level 3 financial assets mainly consist of unquoted shares. Valuation is based on valuation method which includes unobservable inputs.

Reconciliation of financial instruments classified into level 3 in millions of yen

	Fair value through other comprehensive income	Fair value through profit or loss	Total
At January 1, 2023	1,746	1,748	3,494
Gains or losses	(39)	(73)	(112)
Purchases	—	278	278
Disposals	(324)	—	(324)
Transfers	—	—	—
Currency translation effects	—	92	92
At December 31, 2023	<u>1,384</u>	<u>2,045</u>	<u>3,429</u>

Notes to revenue recognition

Disaggregated revenue information in millions of yen

	Revenue from contracts with customers	Revenue from other sources	Total
Sales	1,021,108	(46,615)	974,493
Japan	557,996	—	557,996
Overseas	463,111	(46,615)	416,496
Other revenue	144,756	(7,882)	136,874
Royalty and profit-sharing income	135,341	(7,882)	127,459
Other operating income	9,415	—	9,415

The revenue from other sources primarily relates to collaboration income for which the counterparty is not considered a customer, such as income from profit-sharing arrangements and the gains or losses from hedging activities.

As stated in the “Presentational changes,” starting from the fiscal year under review, “royalties and other operating income” and “other revenue,” which had previously been reported under revenue have been changed to “other revenue,” while income from disposal of product rights has been excluded therefrom.

Contract balances in millions of yen

	December 31, 2023
Receivables-contracts with customers	303,549
Accounts receivable	252,572
Other current receivables	50,291
Other non-current receivables	686

In 2023 there was revenue recognized of ¥125,894 million relating to performance obligations that were satisfied (or partially satisfied) in previous periods, mainly in relation to royalty and milestone revenue.

Transaction price allocated to the remaining performance obligations

There are no material amounts of the total transaction price allocated to the remaining performance obligations which have an original expected duration of more than one year as of December 31, 2022. As a practical expedient, the Group does not disclose the information for remaining performance obligations which are part of contracts that have an original expected duration of one year or less.

There are no material amounts which are not included in the transaction price in the consideration from the contracts with customers.

Notes to the per share information

1. Equity per share attributable to Chugai shareholders	¥988.01
2. Basic earnings per share	¥197.83

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

(January 1, 2023 to December 31, 2023)

(Millions of yen)

	Shareholders' equity								
	Capital stock	Capital surplus			Retained earnings				
		Legal capital surplus	Other capital surplus	Total Capital surplus	Legal retained earnings	Other retained earnings			Total Retained earnings
						Reserve for advanced depreciation of non-current assets	General reserve	Retained earnings carried forward	
Balance as of the beginning of the year	73,202	93,050	2,838	95,888	6,480	631	149,220	1,002,173	1,158,504
Changes during the period									
Reversal of reserve for advanced depreciation of non-current assets						(629)		629	—
Dividends paid								(131,612)	(131,612)
Net income								324,704	324,704
Purchase of own equity instruments									
Disposal of own equity instruments			449	449					
Net changes except for shareholders' equity									
Net changes during the period	—	—	449	449	—	(629)	—	193,722	193,093
Balance as of the end of the year	73,202	93,050	3,287	96,337	6,480	1	149,220	1,195,896	1,351,597

	Shareholders' equity		Valuation and translation adjustments			Stock acquisition rights	Total net assets
	Own equity instruments, at cost	Total shareholders' equity	Net unrealised 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	(26,610)	1,300,984	(1,336)	(13,383)	(14,720)	190	1,286,454
Changes during the period							
Reversal of reserve for advanced depreciation of non-current assets		—					—
Dividends paid		(131,612)					(131,612)
Net income		324,704					324,704
Purchase of own equity instruments	(5)	(5)					(5)
Disposal of own equity instruments	246	695					695
Net changes except for shareholders' equity			302	(2,121)	(1,819)	(65)	(1,884)
Net changes during the period	240	193,782	302	(2,121)	(1,819)	(65)	191,898
Balance as of the end of the year	(26,369)	1,494,766	(1,035)	(15,504)	(16,539)	125	1,478,353

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 other than shares that do not have a market value

Securities with market value are stated at fair value, 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.

Shares that do not have a 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

Depreciation of buildings and structures is calculated primarily by the straight-line method, while the depreciation of other property, plant and equipment is calculated by the declining-balance method.

(2) Intangible 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. 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 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 business restructuring	<p>The provision for business restructuring is stated at the estimated amount of expenditures related to business restructuring as of the balance sheet date.</p>
4. Other basis of presentation of the non-consolidated financial statements	
(1) Accounting for deferred assets	<p>Stock issuance cost is accounted for as the full amount at the time of the expenditure.</p>
(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) Basis of recording revenues and expenses

Sales: Revenue from the sale of goods supplied is recorded as 'Sales.'

Sales are recognized when a promise in a customer contract (performance obligation) has been satisfied by transferring control over the promised goods to the customer. Control over a promised good refers to the ability to direct the use of, and obtain substantially all of the remaining benefits from, those goods. Control is usually transferred upon shipment or delivery to or upon receipt of goods by the customer, in accordance with the delivery and acceptance terms agreed with the customers. Chugai generally receives payment from customers within four months from the delivery of goods to the customer. There is no significant financing component. The amount of sales to be recognized (transaction price) is based on the consideration Chugai expects to receive in exchange for its goods, excluding amounts collected on behalf of third parties such as consumption tax or other taxes directly linked to sales. Chugai recognizes deferred income (contract liability) if consideration has been received (or has become receivable) before it transfers the promised goods to the customer.

Other revenue: Other revenue includes royalty income, income from out-licensing agreements, and income from profit-sharing arrangements with collaboration partners.

Revenue for a sales-based or usage-based royalty promised in exchange for a license of intellectual property is recognized when the subsequent sale or usage occurs.

Income from out-licensing agreements typically arises from the receipt of upfront, milestone and other similar payments from third parties for granting a license to product or technology related intellectual property (IP). Out-licensing agreements may be entered into with no further obligation or may include commitments to conduct research, late-stage development, regulatory approval, co-marketing or manufacturing. Licenses granted are usually rights to use IP and are generally unique. Therefore, the basis of allocating revenue to performance obligations makes use of the residual approach. Upfront payments and other licensing fees are usually recognized upon granting the license unless some of the income shall be deferred for other performance obligations using the residual approach. Such deferred income is released and recognized as revenue when other performance obligations are satisfied. Milestone income is recognized at the point in time when it is highly probable that the respective milestone event criteria is achieved, and the risk of revenue reversal is considered remote. Chugai generally receives payment from customers within four months from the time when performance obligations are satisfied. There is no significant financing component.

Income from profit-sharing arrangements with collaboration partners is recognized when underlying sales and cost of sales are recorded by the collaboration partners. Chugai generally receives payment from customers within four months from the time when performance obligations are satisfied. There is no significant financing component.

(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 financial statements, amounts are rounded to the nearest 1 million yen.

Presentational changes

Income from disposal of product rights (¥220 million in the previous fiscal year), which had been reported under “Revenues”, has been included in “other” under “non-operating income” from the fiscal year under review.

Accounting estimates

The following is an item for which the amount based on the accounting estimates was recognised in the financial statements for the current fiscal year, and which may have a material impact on the financial statements for the following fiscal year.

Recoverability of deferred tax assets

1. Amount recognised in the financial statements for the current fiscal year:

Deferred tax assets	¥81,853 million
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2. Information on the nature of significant accounting estimates for identified items

This information is omitted because it is stated in “Accounting estimates” in the notes to the consolidated financial statements.

Notes to the non-consolidated balance sheet

1. Accumulated depreciation of property, plant and equipment	¥101,556 million
2. Monetary receivables and payables with subsidiaries and affiliates	
Short-term monetary receivables due from subsidiaries and affiliates	¥40,503 million
Short-term monetary payables due to subsidiaries and affiliates	¥22,191 million

Notes to the non-consolidated income statement

1. Components of revenues	
Sales of merchandise and finished goods	¥968,957 million
Other operating income	¥136,926 million
2. Transactions with subsidiaries and affiliates	
Net sales to subsidiaries and affiliates	¥18,984 million
Purchases from subsidiaries and affiliates	¥140,073 million
Supply of raw materials to subsidiaries and affiliates for a fee	¥60,925 million
Non-operating transactions with subsidiaries and affiliates	¥6,920 million
3. Breakdown of non-operating income	
Among “other” under “non-operating income” for the fiscal year under review, the major component was ¥14,679 million of income from disposal of product rights.	

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

Type and number of treasury stock as of December 31, 2023	
Common stock	33,743,712 shares

Notes to the tax effect accounting

The major components of deferred tax assets are prepaid expenses for tax purposes and supplies for tax purposes.

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	79,870	Accounts payable -trade	11,670
				Supply of pharmaceutical ingredients for a fee	60,925	Accounts receivable -other	28,298
			Common directors: none	Lending of funds Collection of funds Receipt of interest	84,900 37,500 986	Short-term loans	128,600

(*): Millions of yen

Note: 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	272,122	Accounts payable -trade	40,491
			Common directors: Yes	Sales of pharmaceuticals	511,881	Accounts receivable -trade	156,506

(*): Millions of yen

Note: Business transactions are determined by the same process as that for general transactions in consideration of market value.

3. Corporate directors and major individual shareholders

Attribute	Name of company / name of Director	Rate of ownership of voting	Relationship	Transaction	Amount of transaction (*)	Account	Ending balance (*)
Corporate director	Osamu Okuda	Directly being owned 0.00%	Representative director	Exercise of stock options	12	—	—
Corporate director	Hisafumi Yamada	Directly being owned 0.00%	Director	Exercise of stock options	12	—	—

(*): Millions of yen

Notes: 1. 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 April 22, 2015 and the Meeting of the Board of Directors of Chugai held on April 22, 2016.

2. 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 revenue recognition

Notes to basic information for understanding revenue from contracts with customers are omitted, as the same information was stated in "(7) Basis of recording revenues and expenses" under "5. Significant accounting policies" and "Notes to revenue recognition" in the notes to the consolidated financial statements.

Notes to the per share information

1. Net assets per share	¥898.45
2. Net income per share	¥197.36